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Growth of Installment Buying

By D. RICHARD YOUNG

Few People Free of Debt. Majority of Cars and Large Volume Other Goods Sold on Time. Finance Company Methods and Form of Agreement. The Use of Credit Cost Brings Social Unrest in Hard Times. The Poor Debtors' Law in Rhode Island.

"ANOTHER new finance company?" the banker says to himself nearly every day. In former years he may have considered it to be bad practice for his customer to "hock" accounts and notes receivable, and the houses soliciting this class of business were only a few in number. Now the ethical ban has been in large part removed and the number of these commercial bankers, who also go under the names of discount, credit, finance, guaranty, brokerage and acceptance companies or trusts, is increasing so rapidly that no up-to-date figures are available. There are literally hundreds in such cities as New York, Chicago, Philadelphia, Boston, Pittsburgh, Detroit, San Francisco, Los Angeles, St. Louis and Baltimore.

The banker is interested in these finance companies because he is continually receiving inquiries from his customers regarding their collateral trust securities as well as their capital stock which they offer to the investing public, and he may be extending credit on a straight, or on a collateral note basis, to these companies that may or may not keep a deposit account with his bank.

From Credit Standpoint

FURTHERMORE he is concerned in the general subject of installment buying because of its importance from a credit and economic standpoint, and in its broader social significance when unfavorable business conditions in any locality cause a general suspension of time payments.

The purpose of this article is not to take sides either for or against the idea of installment selling, for its growth has demonstrated that it has many advantages and is sound financially if administered carefully and honestly. The general criticisms against it which are voiced from time to time in the press and at gatherings of business men appear to come in many cases from those trades which have not been successful in arranging to finance their sales in this manner and which look with somewhat envious eyes on the industries that have increased their sales and profits by this method, of which the automobile industry is the leading example. Installment selling is here to stay.

> ## A Source of Trouble
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> *"OUR country seems to be running into debt through installment buying to a degree that is unprecedented, and the situation carries with it a very real and grave danger."*
>
> *So writes a great merchant and a great observer.*
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> *"Our people," he continues, "buy not only houses on installment but furniture, clothing, automobiles, radio equipment and other items. The charge accounts in retail stores are much greater than formerly.*
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> *"I have a feeling that the discontent that will arise from time to time from inability to meet installments, and increased pressure by the creditors, will result in greater industrial and social trouble."*
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> *The accompanying article sketches the practices and growth of the companies which have come into existence to make installment buying easy.*

Credit Lavishly Used

OF the total volume of business transacted in this country, it is estimated that the portion conducted on the cash-and-carry plan, which was a heritage of our forefathers, is just 5 per cent. The 95 per cent balance is sold by creating debt, and is paid for at some later date. In other words, debt is nearly universal in this country, credit is lavishly used, and installment buying is encouraged in many luxury lines. The proverbial old-time family with a mortgage on the homestead is succeeded by the modern family with a mortgage on the homestead (if any), and on the furniture, piano, radio, books, fur coat, engagement ring and automobile.

Last year a man down in Georgia invited everybody in his county who was without debts to attend a barbecue at which he would be host. One jesting editor in Atlanta said he hoped that "all three" of the guests would enjoy themselves.

J. Harry Tregoe, secretary, National Association of Credit Men, is quoted as saying: "Credit is the cheapest commodity we have today, and the cause of much woe to buyer and seller. I look upon the extravagant use of credit as an attack upon our whole system of economy; and there can be no doubt that we, as a nation, are using credit extravagantly. This not only

is the fault of the public, but of organized business as well.

"Everywhere one goes credit is thrust upon him. It takes considerable resolution to resist the temptation to buy. Business, in its eagerness to sell, has devised a thousand plans based upon credit. Many people buy things they cannot afford, run themselves into debt, and either fail to meet their obligations or else must go through a long period of struggle—all caused by mistaken purchases. Individual credit, no matter how excellent, is the unsafest credit in the world as a whole. And it is this individual credit which is used so unwisely."

Automobile Financing

THE pioneers in installment selling were not the automobile manufacturers, but the makers of pianos, organs and other musical instruments. Neither is the practice an especially recent one, for fifty years ago pianos were sold on terms very similar to those in use today. The major development, however, has come within the last twenty-five years, and is closely connected with the history of the automobile industry.

Though the production of automobiles commenced in 1895 with about 300 cars, these were of such a crude type that they were little more than experiments. It was not until about 1899 that the manufacturing of automobiles really began to take the form of an industry, with an annual production of about 4000 cars. Ten years later the rate was approximately 125,000, while last year the figure was over 3,500,000 passenger cars and trucks. The wholesale value of this output was $4,748,000 in 1899 and $2,279,000,000 in 1924, and the capital investment in plants $5,769,000 and $1,585,000,000 respectively. This is a record probably never before equalled in the industrial history of the world.

The sale of automobiles, which in the early days cost $1,000 or more, presented a problem in that the average purchaser did not have that much money available so as to pay cash. He might raise it by borrowing, but was loath to put a mortgage on his real estate, and his commercial bank did not favorably regard a loan, secured or unsecured, for this purpose. The salesman advanced the logical argument that the cost of a car was not an expense to be all paid at one time, but rather an investment whose value would be realized over several years and the payment for which could properly be spread over a similar period. In the language of the accountant, the car is a "deferred charge" or "deferred asset" which will eventually all be charged to expense by debits distributed over the period of its usefulness, or it might be regarded as a "fixed asset" against which a certain percentage "reserve for depreciation" would be charged each year. From this reasoning grew the plan of allowing the purchaser to buy the car by paying at least 30 per cent down, agreeing to pay the balance in monthly installments usually not to exceed one year, and giving a chattel mortgage on the car as security for the debt. Terms granted on pianos are usually more liberal than in the case of automobiles, and frequently run up to 36 months, which practice has brought forth severe criticism from some credit organizations.

Investment Capital Used

THE above transaction leaves the automobile manufacturer or dealer with the proceeds of his sales represented one-third by cash and two-thirds by promissory notes due within a year's time. If he must carry this paper until maturity it will mean tying up his own capital for many months. If he can rediscount the notes he can again use the proceeds in manufacturing cars and thereby secure a higher rate of turnover of his invested capital and a more attractive profit thereon. The bank which buys the receivables exercises its proper function of lending money, subject to the manufacturer's contingent liability on any notes not paid.

But the banks which objected to loaning to an individual to buy a car did not care for the manufacturer's paper either, if it was in large amounts and secured by mortgages on automobiles sold to scattered individuals, for such security is very difficult to keep track of. Here was a new problem, but the solution was quickly forthcoming—Organize companies to specialize in automobile paper, which would have the technical experience to handle such business safely and would use special methods and records in keeping track of the collateral. Thus the modern automobile finance company was born, although it is based on the same principle as the "factors" which for many years have operated in the textile centers.

"A recent study," said the Federal Reserve Bulletin, "states there are today over 125 finance companies in existence with an aggregate capitalization of approximately $100,000,000 and a volume of business amounting to $1,200,000,000 annually. An official of one of the largest companies gives a smaller figure in each case — $65,000,000 capitalization and $800,000,000 as the volume of business. Another authority places the volume of receivables discounted in the eastern states alone at roughly half a billion dollars a year. The size of the individual company varies greatly, from a capital of a few thousand to several million. The average size of the company specializing in discounting receivables, however, is larger than that financing automobiles, as automobile business as a rule is much easier to obtain and new companies can acquire a reasonable volume in a shorter time. Further, as one writer explains, sellers of accounts receivable are, generally speaking, larger concerns than the average automobile dealer and will hesitate to place their business with a small or new company. Of the 125 companies mentioned above, 45 are incorporated under the laws of Delaware. In New York a number have incorporated under the banking laws of that state and are subject to regular examination by the State Banking Department. Both preferred and common stock are usually issued."

Most of these finance companies supplement their own capital by borrowing, and thereby are enabled to handle a much greater volume of business and to make larger profits. This borrowing may be from their own banks of deposit, by commercial paper sold in the open market, and by the distribution of securities to the investing public.

It is understood that to provide for the financing of electric lighting fixtures and installations on a deferred payment plan such organizations as the General Electric Company, Western Electric Company, Westinghouse Electric & Manufacturing Company, have organized their own discount subsidiaries or have made contracts with existing companies for similar service.

In recent years the sale of investment bonds and stocks on various "partial payment" plans has been developed by a number of banking houses, who claim that it assists investors to systematically operate a budget of savings and expenditures and to build up an independent income for their later years.

Losses Negligible

APPROXIMATELY three-fourths of the automobiles sold in the United States during 1924 were on a time basis, according to Curtis C. Cooper, president of the General Motors Acceptance Corporation. The potential market for low priced cars is 90 per cent a credit market and 50 per cent for high priced cars. He believes that the industry—second largest in America—is founded on the fundamental necessity of transportation and not on any whim or passing fancy, that the purchaser of an automobile gets more for his money in actual value than in buying any other commodity, and that the satisfactory results of the enormous credit used in marketing automobiles shows that the average citizen is basically honest and is a very desirable risk.

Mr. Cooper recently wrote:

"The General Motors Acceptance Corporation was organized in January, 1919, and has now acquired five years of experience. During this period the country has run the gamut of good times and bad. Our total experience for the period should, therefore, represent a cross-section of average conditions in our business.

"Since inception we have financed at retail close to 475,000 cars, involving credit in an amount in excess of $270,000,000, the retail value of these cars being approximately $400,000,000.

"In the year 1923, out of a total of $215,000,000 of credit extended in wholesale and retail transactions, both foreign and domestic, $104,000,000 represents retail credits extended to individual purchasers in all walks of life, in every state in the Union and in Canada and the British Isles, the retail value being approximately $153,000,000.

"On our books today we have $50,000,000 of retail notes outstanding and of this total only $25,000 of installments are over sixty days in default."

The Charges Vary

THE charges made by companies advancing money on accounts and notes receivable covering automobiles, clothing, musical instruments, electrical apparatus, office equipment and jewelry vary considerably, as would be expected from the diversity of the lines of business specialized in, the different procedures in discounting and loaning, and the various grades of creditors

represented. Probably the most common rate is 1/25 of 1 per cent a day on the net face amount of receivables. This is at the rate of 14.60 per cent a year. Since only 75 to 80 per cent of the face amount is advanced the actual rate charged is correspondingly increased. In addition, there is usually a service charge of $5 per $1,000, which is supposed to cover the cost of the credit, accounting and legal departments, which are at the disposal of customers.

For example, suppose a customer discounts $50,000 of six-months receivables, obtaining an advance of 75 per cent, amounting to $37,500, minus the service charge of $250, or $37,250. Interest on $50,000 at 1/25 of 1 per cent a day (payable monthly) is $3,650. At the end of six months the customer receives the balance between the amount advanced and the face amount, provided all the receivables are paid—$12,500. For the use of $37,250 for six months he has, therefore, paid $3,900, or at the rate of 20.94 per cent a year. This figure would vary up or down as a result of the various scales of prices above mentioned, but is believed to be a fair estimate. It is to be noted that the cost to the customer does not include any losses from bad debts, unless they are discounted without recourse or are covered by credit insurance, in either case involving some extra cost for this item.

The expense of time-financing is borne by the purchaser. Stores that sell on installment or on open account usually charge higher prices than those selling on strictly cash terms. If the purchaser on time finds he can pay up the balance before it is due, he can secure a rebate for interest in most cases.

It should be kept in mind that when advertisers offer merchandise on ridiculously easy terms, in some instances automobiles for $5 a week, the car is not released on such a slender margin. The prospective purchaser goes to the dealer, "enrolls" under the plan by depositing the first $5 payment, gets his name on the "preferred order list," and by the time he has paid 30 per cent the dealer makes delivery of the car.

Imprisonment in Rhode Island

A SURPRISING aspect of this subject was brought to light recently by investigators of the New York *World*, who found that in Rhode Island the Poor Debtor's Law still remains in operation, after its abandonment as inhuman in almost every other part of the world. It is said that until a short time ago comparatively few people were even conscious of its existence, yet it has been resorted to year after year, causing an extent of misery and injustice which is only now becoming apparent.

"The law," says the report, "permits the arrest and clapping into jail, without even the formality of a court hearing, of any men, or women, who have signed agreements to pay which they are unable or unwilling to fulfill. The victims have been mostly young men and girls, of almost no means, who have failed to complete installment payments promptly on furniture, jewelry or clothing.

"The law gives incredible power to installment houses over the unfortunates whose poverty forces them to buy almost every necessity by small payments. Writs of arrest under the debtor's law may be purchased by installment houses in wholesale lots from the clerks of District Courts. These writs bear the rubber stamp signatures of the clerks or judges. All that remains to be done is the insertion by the installment houses or other creditors of the names of the debtors to be arrested. Filled in by the installment house manager, agent or attorney, the arrest warrant may be served by a constable without further ado. The debtor may avoid arrest only by paying the bill to the constable. Upon arrest the debtor is taken directly to the city jail, a few miles from here (Providence) and locked up. He never gets a court hearing. He may be kept there as long as his creditor pays his board bill of $4 a week to the State, or until he pays the debt, or until he has served six months when he is automatically released. Six months is the limit of debt imprisonment.

"So quietly may this imprisonment be done that often the closest relatives and friends of the victim do not know what has happened to him until he comes out of jail. And when he is released after six months he finds he not only still owes the debt that sent him to jail, but also he must pay to his creditor the jail board bill of $4 a week, interest on the debt, attorney's fees and other costs."

Imprisonment for simple debt is supposed not to be allowed in that State, but installment houses accomplish their end by turning contract actions into "trover," which may be legally defined as a wrongful interference with or detention of the goods of another, and "conversion," an unauthorized assumption and exercise of the right of ownership of goods belonging to another, to the alteration of their condition or the exclusion of the owner's rights.

Few of the victims arrested are acquainted with their legal rights and are too ignorant to appeal to a lawyer for protection. The report states that the protection this law has given insallment houses has led them to grow like fungi over Rhode Island. There is a large substratum of poverty in this state, tragic contrast to the great wealth which is visible on every side, and poor mill workers are dependent upon the installment houses for almost all their purchases. They sign the all-inclusive contract which delivers them, body and soul, to the shady merchants and shyster lawyers.

People of Rhode Island possessing enough property to cover claims that might be brought into court are never imprisoned. The attorneys for the complainants proceed against their property or holdings. The men and women imprisoned under the civil laws are those who have no property.

It was on the injustice of such a law that Charles Dickens, the English novelist, based so many pathetic scenes in his novels. His exposure of the poor debtor's jails led to the abolition of the law in England fifty-five years ago. The influence spread over most of the civilized world, and almost all the states in the Union tumbled over each other to rid themselves of debtor's laws, except those applying alone to fraud, but the agitation swept past Rhode Island unheeded.

Installment Buying Danger

ONE view of this subject is illustrated by the following quotations from a letter from one of the most prominent department store owners in the country:

"Personally, I have a feeling that your JOURNAL may do a very useful work in handling the subject as intensively as practically possible. Although I am not familiar with the details, I am strongly under the impression that our country seems to be running into debt through installment buying to a degree that is unprecedented and that the situation carries with it a very real and grave danger. Our people buy not only houses, on installment, but furniture, clothing, automobiles, radio equipment, and other items. Moreover, the charge accounts in retail stores have been steadily growing for the last few years and are now much greater than formerly.

"I have a feeling that the discontent that will arise from time to time from inability to meet installments and increased pressure by the creditors will result in greater industrial and social trouble.

"Any study that you can make of this question will be interesting and valuable to men like myself."

There have been numerous reports that a government investigation of the entire subject of time-selling is under way, but inquiry has failed to reveal any such effort. The cost of a complete survey would be very great, and when completed, it would be of comparatively little value. An investigation of the extent of the system in the retailing of two or three lines would be interesting; but it would be practically valueless because it would not give a basis for comparison.

Want All Banks to Use Transit Numbers

A RECENT survey disclosed that about 8 per cent of the nation's banks were not following the general practice of printing their individual transit numbers on their checks, drafts and certificates of deposits. To make the numerical system 100 per cent effective and thus get the full benefit of its money-saving possibilities, a drive has been started by the Transit Numerical Committee of the American Bankers Association to get all banks to print their individual numbers in plain type on the face of checks.

Since its inauguration in 1911, the numerical system of registering transit items has saved thousands of dollars to banks in permitting the recording of checks and drafts by numbers instead of by the name of the institution upon which they are drawn. Any bank, no matter how small, can save time and labor by the adoption of the system.

When the American Bankers Association adopted the system, it authorized the publication of a book containing the names of banks and the numbers assigned. Any bank not aware of its transit number may obtain this information promptly by addressing a letter to Rand McNally & Co.'s Blue Book Department at Chicago.

A Golden Job for Our Mints

By LEWIS ALEXANDER

Double Eagles at the Rate of a Million Dollars Daily Being Added to Our Coinage. Supplying Change for the Nation Is No Mean Task. Our Money Making Institutions Include Striking Off Medals of Presidents and Commemorating Great Deeds.

THE Federal mints have set about to do a golden job. More than a million dollars a day of the nation's vast store of gold is undergoing the change from bullion to double eagles. So ceaselessly are the three mints at Philadelphia, Denver and San Francisco striking off the glittering gold pieces that the United States' strongbox will gain more than $180,000,000 in new double eagles during the first half of 1925.

The policy of the Treasury Department is setting the pace for the mints. When the tide of gold turned after the war and the precious metal started to pour in from Europe and all parts of the world, it seemed that the foundation for a great period of inflation was being laid. For gold is the basis for credit expansion. To discourage the tendency toward inflation by removing the temptation of using idle gold, the Treasury adopted the policy of paying out gold into circulation. It issued millions of dollars in gold certificates; the yellow backed bills were seen in all parts of the country.

With the issuance of the gold certificates, it became necessary to strike off the coins. For, under the law of the land, at least one-third of the total of the gold certificates outstanding must be represented by the actual gold coins. Gold bullion must not exceed two-thirds of the total amount of gold certificates. During the past year the mints struck off 10,300,500 double eagles, and during the first half of 1925 the plans call for capacity operation to bring the gold coinage up to the requirements of the law. It is estimated that the three mints can strike off from $30,000,000 to $33,000,000 monthly in the double eagles.

Observing Banks' Desires

ASIDE from this mandate of law, the form in which the gold reserve of the country is kept depends largely upon the desires of the banks and the relations of imports and exports. Many banks prefer to have gold in the form of bullion rather than in gold coin, because it may be handled more easily. The mints, upon striking off the double eagles, do not hold them, but ship the new money on to the banks. At Washington nothing more than a small working balance is kept on hand so there is never a large stock of gold coins in stock at the Treasury.

At the start of the new year there was the sum of $870,564,000 in gold certificates outstanding, while there was a total of $458,206,000 in gold coin and bullion in circulation. Therefore, the law required that nearly $300,000,000 in gold coin should be in existence to form a backing for the yellow-backed bills. So the mints set about to do a golden job.

When their importance in the scheme of financial affairs is considered, there is probably no American institution which is so little under public gaze as the mints. They are perhaps the most cloistered units in the whole money system. Congress, by act of law, and the Treasury, by its regulations, have kept their operations out of the limelight. Beyond the knowledge that the mints turn out our coins, little is known of what they are doing. No longer is the public permitted to enter the mints as sightseers, because the mints must be secure from any bold assault from robbers; its methods must be hidden to foil the efforts of counterfeiters and its workers must be protected in as many ways as possible. The Treasury does not permit photographs to be taken of the interiors of the mints or assay offices because it is thought that a designing crook, with all the plans before him, might better arrange a holdup or a robbery.

Supplying the Nation's Change

BUT supplying the wealthiest nation in the world with change is a job of tremendous proportions, and while little is known of our mints an examination of their output shows that they are exceedingly busy. During 1924 the mints struck off 89,394,000 one cent pieces and 28,315,000 nickels. The small change of the nation was enlarged by 37,940,000 dimes and 16,892,000 quarters. While a drive was started to popularize the silver dollar, only 13,539,000 of the "silver cartwheels" were coined.

Singularly, the half-dollar is the most unpopular coin that the United States makes. It ranks low in the favor of the people. During 1924 there were just 142,080 half-dollars struck off, and all of these were the commemorative Huguenot-Walloon coins. The mints coined 10,300,500 double eagles. The surprising thing about the activity of the mints is that less than two coins for each American was made during the year.

The Mints' Sidelines

THE mints make other objects besides coins. All of the medals for the army and navy are turned out by the mints. Medals of all the Presidents, the Secretaries of the Treasury, the Directors of the Mints have been designed and executed by the mints. Just recently the mints inaugurated the practice of making medals of the Undersecretaries of the Treasury. Congress has just authorized the mint to make up 40,000 medals to commemorate the arrival of the first shipload of Norse immigrants on board the sloop Restaur Ationen, which is to be celebrated at the Norse-American Centennial out in Minnesota next summer. Indeed, it seems that the practice of having medals made by the mints to commemorate the noble deeds in American history may replace the custom of striking off commemorative coins.

At the past session of Congress there was a flood of bills seeking to have commemorative half-dollars minted by the government. Congress at the session before last authorized the minting of the Huguenot half-dollars and of $5,000,000 half-dollars to signalize the start of work on the Stone Mountain carving, which will serve as a monument to the valor of the soldiers of the South. In the spring it is planned to release the first of the Federal coins on the face of which appear Generals Lee and Jackson, the two leaders of the confederate forces in the Civil War.

With the 150th anniversary of the great battles of the American revolution approaching, bills were passed this winter to issue coins commemorating the stand of the minutemen at Lexington and Concord and the battle of the Green Mountain patriots at Bennington in Vermont. Proposals were made to pay tribute in a similar way to the battle of Bunker Hill, the victory at Yorktown and other events in American history, such as the 200th anniversary of the founding of Stoughton, Mass., the 50th anniversary of the admission of California.

Special Coins Not Popular

FEARING that the growth of this practice would open the way to counterfeiting and make the protection of the integrity of the coins more difficult, Secretary Mellon openly opposed the creation of these special coins, but was not entirely successful in his efforts. He insisted that the practice introduced confusion into our system of coinage, brought about an unnecessary expense and satisfied a very limited demand because the public generally has never shown a special liking to the commemorative coins. However, Congress felt that these great events were worthy of commemoration and authorized the coins—all of which are to be sold at a premium so that the promoters of these events may raise funds by this extra charge to defray part of the expense attached. The records of the Treasury show that the special coins, as a general rule, are seldom absorbed in circulation. The Monroe coin issue was a dismal failure—217,000 of the 274,000 struck off were turned back to the Treasury for melting up.

Has the Gold Influx Stopped?

By GEORGE E. PUTNAM

Lessons of the High Tide of Gold Which Should Not Now Be Forgotten. Case Against the Conservation of Gold Was Not as Plain as Case Against Wheat. Low Money Rates Like Low Wheat Prices Provide Their Own Remedy.

THE mounting tide of gold that brought us a billion and a half dollars net over a period of four years, at a rate not far from a million dollars a day, seems, for the time being, to have spent its force. The net loss of $100,000,000 gold during the months of December and January, with further heavy withdrawals promised for the ensuing months, has definitely broken the long chain of gold imports and given rise to the conviction in certain quarters that the final redistribution of our excess gold, which has been awaited with interest for a long time, is at last under way.

It will now be convenient, no doubt, to forget all about that portion of our history which had to do with the problem of too much gold. But there are a few things in that history which should not be forgotten. For one thing, we learned the lesson that a highly commercial nation cannot go on conserving gold indefinitely. In the face of a rapidly increasing quantity of gold reserves, we deliberately chose not to put our excess gold to work, because we were afraid that business might develop inflationary tendencies. We continued in that policy year after year. We maintained higher money rates than the condition of our gold reserves warranted, with the natural result that we got more and more gold. By last May we had accumulated such a vast quantity of the metal that it became distinctly unprofitable, if not impossible, to conserve gold any longer. The upshot of the matter was that our policy of gold conservation through artificial credit control automatically broke down, and money became a drug on the market.

Identical With Wheat

WE could have adopted an almost identical policy with reference to wheat and other agricultural products a few months ago, and we might have done so had it not been for the too obvious defects of such a policy. The McNary-Haugen bill would have had us rushing to the aid of the farmer with legislation providing for the maintenance of high wheat prices. We knew that we could boost the price of wheat by taking our surplus production off the market. We also knew that we could maintain the price at a fairly high level for a short period of time. But common sense told us that high wheat prices would not solve the problem of too much wheat—they would only be the means of giving us more and more wheat, until finally the weight of increased supplies would break down artificial control and create a greater demoralization in prices than existed prior to the control period. Unfortunately, the case against the conservation of gold through the maintenance of high money rates did not seem so obvious at the time; so we violated what we should have recognized as the fundamental principles in the situation.

Another lesson we learned, or should have learned, is that low money rates, like low wheat prices, provide their own remedy if given an opportunity. Great concern was shown during the summer months of 1924, following the breakdown of credit control at the Federal Reserve Banks, on account of the dangerously low level of money rates. Fears were everywhere expressed that low rates might give rise to inflationary tendencies from which recovery would be painful. It was seriously suggested that the Federal Reserve Banks should do something drastic, if necessary, to tighten the money market, and it was pointed out that their best means of accomplishing this end was to sell some of their government securities and thereby reduce the market supply of surplus funds.

This suggestion was made at a time when the earning assets of the Reserve Banks were unusually low, so that the sale of their government securities would have reduced their earning capacity to a point where they could not make their expenses of operation. It was contended that this feature of the proposal was harmless, inasmuch as the Reserve Banks could draw for their expenses and dividend charges upon the enormous surplus built up during the war and post-war period.

Although this proposal was well thought of in some quarters, it completely ignored the fundamental fact that raising the level of money rates through artificial means would be equivalent to superimposing a second period of control upon one that had failed. It also ignored the fact that higher money rates would only attract more gold when, in point of fact, we were already suffering from an excess. Fortunately, money rates were allowed to take their natural course, and our difficulties were not aggravated by further control.

Better Start Now?

*WE have recently learned by experience that we cannot control economic laws by fiat. * * * Can we now profit from our experience with economic forces and, if debts must be paid, show some disposition to permit their payment in the normal way? Or must we go through the farce of insisting, as we have insisted, that they be paid by some legerdemain process? We can, of course, choose either route. If we choose the latter, we should expect one of two consequences from our policy; either the obligations will not be paid, or, if paid, we may have to take more gold in settlement as a means of paving the way for a final settlement in goods. It would be far better to start taking goods in payment now than to allow our industry to grow up to an artificially high level of costs and prices and then force it, through painful recovery, to readjust itself to a normal level later on.*

Money Rates Provide Own Remedy

THE effect of allowing low money rates to provide their own remedy was all that could be expected. Idle funds began to seek employment. Security prices rose. American banks built up large balances in foreign centers, chiefly in London, where money rates were higher. Individual investors were not specially attracted to foreign securities at first, but the rapid advance in our securities markets induced them to put more and more of their funds into the higher yielding foreign securities. A broad market was soon created for the absorption of fresh issues of foreign bonds, and our investors rose to the occasion even more readily than was expected. The large volume of foreign financing accomplished one thing at least; namely, it stopped the excessive flow of gold to this country and, more recently, turned the tide of gold movements in the other direction.

During the year 1924 we took about one billion dollars' worth of foreign securities. We also built up an excess of exports over imports of approximately the same amount. This means that we used our billion dollar excess of export credits to pay for the securities of foreign governments and foreign industries. Failing to build up sufficient credits abroad to take care also of the liabilities growing out of tourists' ex-

penditures, remittances for ocean freights, foreign bank commissions, etc., we have been obliged to send gold to meet the balance of payments.

It would be idle to speculate on the probable outflow of gold this year, or the length of time that the present outward movement may continue. There are many complex factors governing the situation, such as the relation between money rates here and abroad, the relation between our export and import trade, the amount of money American tourists spend in foreign countries, the state of European finances, the favorable or unfavorable character of European developments and the credit policies of the Federal Reserve Banks. It is to be presumed, however, that so long as our money rates are below the level of money rates in London, and so long as foreign countries can offer adequate security for loans, our investors will continue to buy foreign bonds. Whether the volume of foreign financing will be sufficiently large under these conditions to cause a heavy outflow of gold depends to a great extent upon the surplus credits we built up abroad through our export trade. If our export trade is not big enough to pay for import liabilities, foreign securities and the numerous invisible liabilities, we will export gold in payment.

Regain Control Over Credit

THERE is nothing to be found in the present outward gold movement to warrant alarm. On the contrary it is an event that will doubtless be regarded by the Federal Reserve authorities as distinctly worth while. Just as the inflow of gold caused member banks to pay off their borrowings at the Reserve Banks, so the exportation of gold on a large scale will compel member banks to have recourse again to rediscount operations at the Federal Reserve. In other words, the Reserve Banks will be able to regain some of the control over credit conditions that they lost during the period of gold importation. While this might mean some stiffening in money rates, there is no likelihood of a sufficient loss of gold in the near future to endanger our reserve position.

The effect of gold exportation upon our reserve position may be made clear by illustration. If we obtained $500,000,000 in gold for export by presenting Federal Reserve notes for redemption, the Federal Reserve statement would show a reduction in gold assets of $500,000,000 and the same amount in note liabilities. Withdrawing that amount of reserve notes from circulation, however, would produce a temporary shortage of currency, which member banks would feel, and in order to replenish their funds, they would be obliged to rediscount approximately $500,000,000 of their paper at the Reserve Banks and receive $500,000,000 of Federal Reserve notes. After this operation, the assets and liabilities of the Reserve Banks would stand at the same figure as before the gold was withdrawn. They would merely have substituted one kind of asset for another without any change in the total.

In this way it may be estimated roughly that the withdrawal of a half billion in gold for export would leave the Reserve Banks with a reserve ratio of about 64 per cent against their demand liabilities, compared with a present ratio of 77 per cent. Or, if we presented gold certificates to the United States Treasury instead, and the place of these certificates was then taken by an equal amount of Federal Reserve notes, the ratio of reserves to demand liabilities at the Reserve Banks would be 68 per cent. On the basis of such estimates it is clear that we could export gold on a vast scale before becoming involved in serious credit difficulties.

In estimating the extent to which gold may leave the country in the near future, the attitude and policies of the Federal Reserve Board cannot safely be left out of account. But omitting that angle for the long run, it should be noted that there is one factor in the situation which strongly suggests that the period of gold exports will be fairly brief, and that the total volume of shipments will be comparatively small. That factor has to do with the large payments that must be made to us every year on account of interest and principal.

More Than $500,000,000 Interest to Private Investors

DURING the year 1923, for example, foreign countries paid us more than $500,000,000 net as interest to private investors, and interest and principal to the United States Government. During the past year we received payments from the governments of Great Britain, Finland, Hungary and Lithuania, totaling $160,700,000, which consisted largely of interest on war and post-war loans. To that amount should be added the interest received on foreign bonds now held by private investors. If we also include the interest on the billion dollars worth of foreign bonds purchased during 1924, the net receipts of interest and principal for the past year should far exceed the amount received in 1923.

Looking to the more distant future we should note that Poland has funded her debt of $178,560,000 to our Government and will shortly begin to make payments. To date more than 42 per cent of our so-called war debt has been funded. The French Government debt, having an accumulated value of $4,000,000,000, remains unfunded, but we are now clamoring for settlement and payment. We expect also to receive a substantial yearly payment from Germany on account of war claims and the cost of the American occupation. When we add to these payments the interest on foreign bonds already held by our investors, and the interest that will accrue on future issues, the question at once arises, How are we going to get all these payments?

We are only beginning to understand vaguely what should be a commonplace, namely, that in the long run international payments must take the form of goods and, to a lesser extent, of services. There are natural limits to the use that can be made of gold for such purposes—limits imposed by the quantity in existence and the yearly contributions of the gold-mining fields. At present there is not enough gold outside of the United States to discharge the obligations due us. Even if we added the probable production of the rich Transvaal field during the next twenty years to the present European supply, our European debtors would still have insufficient gold to take care of the yearly payments of interest alone. We cannot, therefore, expect our foreign debtors to pay us in gold, nor do we want more gold thrust upon us.

Other Limitations on Use of Gold

THERE are other limitations also upon the extensive use of gold for international settlements. An over-accumulation of gold in a particular country tends to cheapen the monetary unit of that country, i.e., it tends to raise the level of prices. After prices have risen, it becomes more and more difficult for that country to sell goods abroad, and more and more profitable to buy goods abroad. Sooner or later it becomes necessary to export some of the gold accumulation in order to pay for an excess of imports over exports, or, more accurately, an excess of foreign liabilities over foreign credits.

If, in the face of an excessive gold supply, a country's price level fails to rise to the point where it will be profitable to import goods, the excessive gold will at least be the means of lowering money rates so that a market will be created for (the "importation" of) foreign securities. If further resistance is then shown to the receipt of goods in payment for interest and dividends on these securities, more gold will be imported until all resistance to rising prices and heavy importation is broken down, or until the creditor country begs the debtor country not to pay.

A large gold influx, therefore, affords only a temporary means of discharging international obligations. It does not constitute final settlement. It merely paves the way for the goods that are to follow; or (if there has been effective resistance to rising prices) it prepares the way for an influx of foreign securities and an influx of goods later on. In the end, however, excess gold will be redistributed. A nation cannot have too much gold without paying the penalty. It is literally asking that its export trade be cut off and that its import trade be stimulated.

The suggestion is frequently made that we have nothing to fear from a large influx of goods in payment for the obligations due us. It is pointed out that England became the workshop of the world by exporting her capital goods to other countries, taking their bonds and credit obligations in payment, and then receiving goods from these countries year after year in payment for the interest on her foreign investments. If England profited from such activities, why should we not also profit?

How Else Can We Receive Our Interest?

IT should be apparent that our present situation is not analogous to that of England. It is true that England profited greatly from her loans to foreign countries. She made heavy investments in railroads and mining properties in her colonies and in other new countries on which she was dependent for the raw materials of manufacture. But we have not followed her ex-

ample. Our foreign loans have not been made in countries which may be expected to produce raw materials for our industries, but rather in the strongest industrial countries of Europe. How else can we receive our interest and principal except in the industrial products of these countries?

There is always the possibility that we may receive some payments in specialties, luxuries and non-competitive goods, which will not disrupt our own industries. But it is impossible to believe that the enormous payments due us can or will be made in such products. The volume of payments is much too large to be met that way and, furthermore, there are very few products that would be strictly non-competitive with the products of our own industry.

Our industries will be forced to compete with European industries both in our domestic markets and in the markets to which we send manufactured products. This will not be a pleasant experience for American manufacturers, nor for American labor. The payment of large obligations by one nation to another has never been a pleasant thing for the nation that received the payment. The payment of the French indemnity following the Franco-German war so disturbed German industry that Bismark was prompted to exclaim: "The next time we win a war, we'll insist on paying the indemnity ourselves."

To date the payments we have received on account of interest and principal on our foreign loans have come to us largely in the form of gold, because tariff barriers made it impossible for us to take goods. We now feel that we have got thus far without any penalties, and apparently we see no inconsistency in our refusal to take payment in goods coupled with our demand that debts be paid. It is even probable that if we reached the stage where our industry felt the pinch of foreign competition, we would still rally to the tariff as a means of making ourselves self-sufficient or of maintaining the American standard of living, etc., etc.

The Tariff Between Us and Payments

IT now remains to be seen how much longer the tariff can stand between us and European payments. We have postponed the issue with apparent success, just as we postponed the period of cheap money in the face of increasing gold imports. We may be able to postpone the issue a while longer, but the forces are steadily accumulating against us. If, in showing resistance to a high price level, we have temporarily defeated the ultimate purpose of an excessive gold supply, we have at least been induced by the low level of money rates to import foreign securities, the interest on which will increase the total obligation due us. It may be that we have defeated the purpose of excessive gold for once, but we cannot go on doing it. If goods cannot come, gold will, until the conditions are created which permit of payment by goods.

We have recently learned by experience that we cannot control economic laws by fiat. We can tamper with these laws and make ourselves believe for a time that we control them. But there are definite limitations to control, and when we go beyond these limitations, control inevitably breaks down and we are obliged to pay a penalty in some form or other for our unintelligent interference.

Can we now profit from our experience with economic forces and, if debts must be paid, show some disposition to permit their payment in the normal way? Or must we go through the farce of insisting, as we have insisted, that they be paid by some legerdemain process? We can, of course, choose either route. If we choose the latter, we should expect one of two consequences from our policy: Either the obligations will not be paid, or, if paid, we may have to take more gold in settlement as a means of paving the way for a final settlement in goods. It would be far better to start taking goods in payment now than to allow our industry to grow up to an artificially high level of costs and prices and then force it, through painful recovery to readjust itself to a normal level later on.

The Southwest "Cleaning Up"

By P. W. MORGAN

A RED River Valley cotton grower appeared at the railroad station in a southern Oklahoma town a few days ago with a bundle of abstracts of title under one arm. A banker, waiting on the platform for the afternoon "Local," observed the documents and the bands of red tape with which each was tied.

"Well, John," the banker inquired, "what have we here?"

"These? Oh, yes, I've just been cleaning up on some land."

And in the cotton grower's tone there was something of that feeling of elation which comes to one when one has relieved himself of a financial load.

John Goss—as happens to be the cotton grower's real name—is one of the big, self-made "dirt farmers" in the Red River country. He owns and farms 10,000 acres along the river in Texas and Oklahoma. The town of Telephone, Tex., is on his own land and its inhabitants are his employees and their families.

Last year he had 6500 acres in cotton, 2000 acres in corn and 1500 acres in meadow and pasture. His cotton crop of 2240 bales brought 20¼ cents to 25½ cents a pound, and 1100 tons of seed was sold at $35 a ton. In all, his cotton and seed had a value of more than $300,000. His crops of corn and hay were held on the farm for feeding live stock, including several hundred work mules necessary for successful farm operations on so big a scale.

"The cotton growers of the Southwest have experienced a good many ups and downs since I bought my first piece of land, about two hundred acres, thirty years ago," John Goss told his banker friend. "But last year's good crop, even if it did not bring as much to the pound as was paid the year before, gave the growers a chance to clean up. As a rule they have paid their debts and while many of them have little left, they are in better condition financially than for many years."

Texas and Oklahoma in 1924 took first and second rank as cotton growing states, with production of 6,220,000 bales, or 47.3 per cent of all the cotton produced in the United States in that year. The value of the cotton grown in the two states, not counting the value of seed, was placed by the Department of Agriculture at $695,190,000.

Cotton, however, is not the only farm crop in the region between the Mississippi River and the Rocky Mountains. There is a pyramid of four states with Texas as the base and including Oklahoma, Kansas and Nebraska, in which the farmers produced in 1924 crops of an aggregate value of $2,171,718,000, this total representing 21 per cent of the value of all farm crops produced in the United States in the year. The value of the crops in these four states exceeded that of their 1923 production by $260,366,000.

The wheat crop in the four states was 301,553,000 bushels, more than one-third of the nation's entire wheat crop, and worth $367,824,000, farm value, or $213,355,000 more than the previous year's crop. The corn crop of 477,985,000 bushels in these states was 46,252,000 bushels short of the 1923 crop, but the increased price of corn gave the smaller crop a value of $443,276,000 or $95,757,000 greater than the value of the previous year's crop.

The prosperity which has come to agriculture through well-balanced crop production and higher price levels is not confined to any particular section. Missouri, Iowa, Arkansas and all other states have produced enormous crops and have been benefited by the increase in prices. Colorado harvested the largest wheat crop in the history of the state, and the value of Colorado's 1924 sugar beet crop exceeded the value of her gold and silver production for the year.

Yes, the cotton growers of the Southwest have made a "cleanup" on their crops. So have the grain farmers all through the Trans-Mississippi and Great Plains regions. And the "crop money," the newly created wealth taken out of the soil and distributed by John Goss and his kind—their name is legion—has cleared up the economic situation, given agriculture a better balance, brought stability to business, wrought an improvement in the position of the banks such as was not dreamed of at last mid-summer, and ushered in a new era of prosperity for the entire nation. It may take another crop to complete the job undertaken, but greater progress has been made in the last six months toward rehabilitation than has ever been made in this or any other country in a like period of time.

The Big Land Problem Just Around the Corner

By C. B. SHERMAN

A National Land Policy to Provide for the Day of Congestion Coming with Our Rapidly Increasing Population. How Much Area Shall be Given Over to Raising Food? Little Public Domain Remains for Distribution. How Shall America Sustain Herself?

ESTABLISHMENT of a national land policy is an event of the future that many await with interest for many reasons. The executive departments at Washington, not content to await such a program idly, are aiding actively to prepare the way for it. Many of the bureaus of the United States Department of Agriculture are working on projects that have as their common objective the determination of the probable future needs of the United States, and a classification of the land in the United States with reference to its adaptability to meet these needs. In these activities to prepare the way for a national land policy some of the bureaus of the Department of the Interior and a number of individual states cooperate.

"The consciousness of the land problem has not yet developed in this country as it has in England and on the Continent of Europe," says Dr. L. C. Gray, in charge of the Division of Land Economics, which serves as the coordinating agency in all of this work. "The subject of land economics has not yet become in this country, as it has become abroad, the central theme of agricultural economics.

"Our problem in this country has been largely one of disposing of a great reserve area of public land, attracting people to the land and keeping them on it, rather than a problem of providing land for clamorous multitudes of people who are seeking to become farmers. This, of course, has prevented the subject of land economics from being foremost in the consciousness of those who are interested in the agricultural problem. But we are entering this newer phase of the land problem, and so rapidly does our population increase that this other aspect of the land economic problem is just around the corner."

Disclosing the Situation

THE general objective of the Division of Land Economics, according to Dr. Gray, is to provide the necessary information and facts that will enable the people of our country to understand thoroughly the situation as to the agricultural land resources of the nation and their utilization and tenure, to see the situation in its true light, divested of purely temporary considerations, propaganda and sentimentality.

To a considerable extent the facts are scanty along certain lines, and it has been necessary to promote, in the census and elsewhere, the gathering of necessary facts to fill up these gaps. As rapidly as possible we must be able to answer with due regard to all economic factors such questions as: "How fast should our agriculture expand?" "What proportion of our surface area should it occupy?" "What should its relation be to the other great usages—pasturage and forestry, and what areas are best suited for these various uses?" Factors like increasing population and changes in domestic consumption and foreign demand are having a great influence upon the relative amounts of land devoted to different purposes. The trends of these changes have been summarized and made public.

Land reclamation policies in the United States throughout its history have been studied critically. On the recommendation of the Committee of Special Advisers on Reclamation, usually known as the Fact Finding Committee and appointed by the Secretary of the Interior, an analysis of these policies, together with summary and recommendations, was recently published. However, in order to avoid the serious mistakes of the past, says Dr. Gray, it is important to make careful preliminary investigations, not only of the engineering, but also of the economic possibility of proposed projects, and the Division of Land Economics is working to establish the economic foundation for such work.

Comprehensive studies are under way, involving an analysis of the values, cash rents and mortgages for irrigated and non-irrigated lands, with a view to determining the value of irrigation in sections where it is possible to farm without it. In conjunction with the Bureau of Public Roads, a project to determine the cost of establishing farms on reclaimed lands has been set in operation. It is hoped to obtain adequate data for determining the feasibility of land reclamation in various sections, bearing in mind other possible costs than that of mere reclamation itself, as contributing to the capital investment on which returns should ultimately be obtained.

Classifying All Land

SUPPLEMENTING these studies are disinterested reports on the character of the farm land available for settlement and on the advantages and difficulties in developing farms in undeveloped regions. Studies on which these reports are based cannot, as yet, be made of these areas square foot by square foot, or square mile by square mile, but are made by bringing together facts already in the possession of the Bureau of Soils, the Bureau of Forestry and other bureaus, putting them on maps or charts and analyzing the economic character of the maps thus made. Says Dr. Gray, "We look forward to a time when we can have, in this country, a systematic classification of our lands. There are some little evidences that we are not hoping in vain, and that this will be brought about."

To a considerable extent the research work is geographic in character. The cut-over lands of the lake states have received intensive attention as to character, prospects, methods of settlement, etc. and some of the results are in press. The great plains and the spring wheat area have been surveyed both as to physical and as to economic conditions, for problems of farm organization and land utilization in these regions are very serious. The states that lie wholly or in part in these areas have joined in making the surveys and are impatiently awaiting the compiled results.

Public control, supervision and direction of land settlement is receiving attention. Results of all these investigations are opened to the public as rapidly as they can be concluded and summarized. State activities and policies are being studied and compiled. A new day is dawning in that regard, according to Dr. Gray, because a few of the states have come to recognize that a settler put on the land when and where he does not belong may do more harm to the development of the region than if he had never come, and officials in some of the states are learning that, in the long run, indiscriminate immigration and settlement is the wrong policy.

Ownership and tenancy of farm land have received a share of attention. A comprehensive study of the ownership of rented farm land is being completed. This study shows the extent of concentration of ownership, the extent of absentee ownership and various important facts about landlords, such as their occupations, methods of acquiring ownership, amount of attention given their farms, and extent to which they believe soil fertility is declining.

Study of Tenancy

FOR the sample year 1922, a close study was made of the changes in farm occupancy, ownership and tenancy. This was

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Germany's Sound Money Luther

By ROBERT CROZIER LONG

America Interested in Questions of Business and Finance, a New Figure in the Cabinet Has to Answer. Chief Among These Are Tariff and Commercial Treaties; Finance Reform and Revaluation, the Latter Involving the Grievances of Bond Holders.

"SOUND MONEY SCHACHT" was the title given to the Reichsbank president by Americans who visited Berlin in 1924. Germans now say "Sound Money Luther" of the statesman who was Finance Minister in the critical stabilization weeks of late 1924, and who now, after Dr. Marx' disappearance, has become Chancellor in difficult political conditions. Economic conditions have greatly improved as a result of his vigor and skill.

Luther's record as a sound money advocate is indeed quite as well established as Schacht's. If it was Schacht who supplied the banking technique necessary to create the Rentenmark, stabilize the paper mark, organize the Gold Discount Bank and bring into the world the new Dawes Reichsmark, it was Luther who handled the equally difficult political ends of these problems, who cajoled parties, coerced business and enforced on a doubting nation confidence and patience. Also it was Luther who, by putting the state finances in order, consolidated the currency reform; for just as the budget deficits of 1919-1923 were a main cause of the old mark's collapse, so a balanced budget today is the only valid pledge of the new mark's stability. Taken all round, Luther—hampered though he is by his enforced, uncomfortable alliance with the semi-monarchistic German-National Party—seems to be the most suitable Chancellor within sight. He is young, energetic and strong willed; he has been trained in business finance as well as in public finance, and he attained the highest political position in the republic as result of personal prestige derived from achieved success.

The Things He Faces

LUTHER is faced with a multitude of problems which should have been solved months ago. He has undertaken to free the nation from the last of the economical restrictions imposed during and after the war. Chief of them are the import prohibitions and the housing and rent laws. To please Democrats and Socialists—whom, owing to his shaky Reichstag majority, he is obliged to propitiate—he has promised unemployment insurance and a gradual restoration of the eight-hour day. But there are three extremely difficult unsolved problems. 1. He has to put through an entirely new customs tariff and to conclude definitive commercial treaties. 2. He has to reform the finances, bearing in mind the republic's gradually increasing liabilities under the Dawes plan. 3. He has to settle the question of "aufwertung," or revaluation of depreciated papermark public and private debts, which is the thorniest, most hotly disputed problem that has faced any German cabinet since the war. All these problems are difficult. Ex-Chancellor Marx, though a competent man, postponed them, or contented himself with patchwork solutions. That Luther should be destined to tackle them is a surprise to old school politicians.

Two years ago Dr. Luther was unknown outside narrow provincial circles. As late as 1913 he was in the obscure position of municipal councillor at Magdeburg. From then until the end of the war he was secretary of the German Municipalities Convention, and he dictated the policy of that influential body in matters of finance. Next he became ober-buergermeister of Essen. He thereby became an ex-officio member of the control boards of numerous "mixed" public utilities corporations, in which municipal and private capital were combined. When Chancellor Cuno wanted a food minister he took Luther; and when Chancellor Stresemann, on forming his second cabinet, wanted a finance minister, he took Luther. Luther had luck in that he became finance minister when currency and financial demoralization had reached such extremes that a complete breach with the old system was inevitable. In a sense the rentenmark solution was already prepared. But it was skill and energy, not luck, which dominated the following fourteen months of Luther's tenancy of the finance ministry.

Keystone View

Dr. Luther, Chancellor of Germany

Luther's achievements as finance minister are best of all recorded by the figures of his revenue and expenditure returns. In October, 1923, when he became minister, just 1/2000th part of expenditure was covered by revenue. The budget of 1924-25 showed an estimated deficit of 350,000,000 gold marks. The realized budget will show a surplus of 940,000,000 gold marks; about 250,000,000 gold marks of debt have been repaid out of revenue. Estimated revenue in the year mentioned was 5243 million gold marks; realized revenue in nine months was only 5293 million gold marks; and on basis of the nine months' experience the new finance minister puts revenue in the whole year at 7975 million gold marks. In the last months of 1924 revenue exceeded that estimated by 50 per cent. Income tax, which was to yield 1344 million gold marks in twelve months, yielded 1598 millions in nine months; turnover tax, which was to yield 1260 millions in twelve months, yielded 1353 millions in nine; customs, which were to yield 160 millions in twelve months, yielded 230 millions in nine. After the initial borrowing from the Rentenbank, with which the budget during the transition weeks was balanced, not a cent of debt was incurred; and today after all its currency and financial misfortunes the debt of the republic, including the Dawes loan, has the insignificant total of under $800,000,000.

Threatened With a Crash

THE mark exchange is no longer heard of. In 1923 the whole world talked of "the German mark"—the sensation, puzzle, scandal, and stale but insuppressible joke of Europe and America. If the mark is forgotten today, this is simply because its stability is taken for granted. To Luther is due a very great part of the credit. He did not indeed invent the rentenmark, which was the foundation of the whole currency reform. Nobody knows which German invented it, for as soon as its success was plain, a dozen distinguished citizens discovered that they first thought of it, and ignored the fact that something like a rentenmark was invented by Mirabeau early in the French Revolution with most unlucky results. But Luther did something better than invent the new currency; he vindicated and preserved it.

This achievement, which was unrecorded abroad, took place in the spring of 1924. The rentenmark, and with it the newly stabilized paper mark, were threatened with a crash. Few Germans and no foreigners noticed the threat, but the threat was real. The

cause was the old trouble—inflation, which seemed about to reduce the internal value and therefore the foreign exchange of the new currency. The whole trouble sprang from the exaggerated demand for credit by big industry. Industry wanted loans, and did not at all worry about the possible inflationist result. Industry had flourished best, and experienced record low unemployment, in the years when the paper mark currency was going from bad to worse. For years industry had been used to getting unlimited Reichsbank credits. Between the end of 1923 and April 7, 1924, the date at which Luther put his foot down, the total of Reichsbank discounts increased from 422,000,000 to 1,866,000,000 gold marks. Business was prospering; unemployment figures fell. But as result of the credits the circulation, wholly unsecured, of the Reichsbank was rapidly increasing. Within a few months, had no steps been taken, the mark would have lost a great part of its buying power at home, and the next event would have been a crash in its exchange.

Luther acted. The Reichsbank proclaimed a credit state-of-seige. It announced that the total of outstanding credits on April 7 would not be exceeded. Big industry replied with a savage assault on Luther, on Schacht, on all the anti-inflationists. It foretold a credit crisis, which duly came. The rate of interest in dealings between first class Berlin banks rose to 90 per cent, in the provinces to 120 per cent. An industrial crisis followed. Big corporations discharged their workmen because they could not raise money for wages. Luther stood firm. It is far better, he said, that industry should have a crisis than that all Germany should pass again through the currency and financial catastrophe of the first five post-war years. Industry would get over the crisis; Germany would not. "The German nation," added Luther, "has much too quickly forgotten the events of the inflation years." The Reichsbank credit embargo was maintained; it is even maintained today. Big industry continued to clamor. But Luther proved right. By the close of 1924 industry was again flourishing, and the supposedly necessary price of its prosperity—the destruction of the currency—had not been paid. The whole currency circulation at close of 1924 had the moderate total of 3955 million gold marks. In 1913 it was 6000 gold marks. Allowing on one side for the smaller national area and population, and on the other side for the reduced value of gold, the circulation of today is more than moderate.

Criticised By Big Industry

BIG industry still criticises Luther. It resents his alleged hoarding policy. He has either paid off debt—unnecessarily, or has—unnecessarily—accumulated state funds in the Reichsbank, at a time when business was always short of cash. In fact not only the republic but also, under its influence, the states and some municipalities enormously increased their bank credit balances; and, as already stated, loan was repaid. Luther retorts that the amount of cash in the state's hands is less than the average amount before the war. He justifies the repayment of loan on the ground that gold loan certificates of 1923 were circulating as emergency currency; and that this currency must be withdrawn as part of the great deflation policy. Some critics outside business circles think that Luther pushed deflation rather too far. But a sound money fanatic is at his worst better than an inflation fanatic; and the Luther policy of not taking risks has been fully justified so far. Only extreme caution and conservatism will bring the cabinet to satisfactory solutions of the three pending difficult problems which have been enumerated. The present position of these problems is as follows:

1. Tariff and Commercial Treaties. The result cannot be foreseen. On January 10 all the one sided trade privileges exacted by the Allies in the Versailles Treaty lapsed. The Luther Cabinet's aim, which is supported by the Federal Economic Council, is to conclude mutual most-favored-nation treatment commercial treaties with all countries. Only by such means can German exporting be pushed; and as imports cannot be materially reduced, increased exporting is the only remedy for the of-late hopelessly passive foreign trade balance. The abundance of foreign exchange in 1924, which was one feature of the currency reform, had a disastrous effect upon the trade balance; and this trade balance is today the only unfavorable factor in Germany's economic condition:

MILLIONS OF GOLD MARKS

	Imports	Exports
1924	9,317	6,567
1923	6,081	6,079
1922	6,303	6,181

But no definite commercial treaties can be concluded as long as the German republic has not its own definite tariff. The existing tariff, which dates from 1902, is under revision. The new tariff will undoubtedly increase duties on manufactures and will probably restore the pre-war food duties. A severe Reichstag struggle is inevitable, and the tariff will probably not become law this year. Meantime has been submitted a so-called "minor tariff," which the Reichstag will probably promptly pass, the aim being to impose it in order to check imports as soon as the proposed abolition of import prohibitions takes place. Standard American products, in particular motor vehicles, are made subject to very heavy duties. Luther has the difficult task of bringing native industrial and agricultural interests into accord with international exigencies. Unreasonably high import duties, which certain interests demand, would probably lead to trade-wars, which Germany cannot afford.

2. Finance Reform. This problem is easier. At present there is no regular income tax. Business is provisionally assessed not on profits, but on turnover. The property tax also needs reform. Further, the "Ausgleich," or agreement with states and municipalities, under which the latter two receive two billion marks subventions out of a total revenue of about six billions, expires on March 31. The interest of the republic, the states, and the municipalities must be brought into accord.

The Problem of Revaluation

3. Revaluation. This is the most difficult of all Dr. Luther's problems. It involves the grievances of home and foreign bondholders, the resources of the Treasury, and the tax-paying capacity of citizens. The situation as it existed last fall was described in the AMERICAN BANKERS ASSOCIATION JOURNAL of November, 1924. Changes in the situation have since taken place. During the Reichstag election of December last all parties proclaimed—in widely varying degrees—for partial recognition of the pre-war and war debts. German National agitators even promised a 100 per cent restoration, which would mean that the republic must take on its shoulders the whole 80 billion gold marks of vanished debt. Nobody believed this promise; but the agitation compelled the late Marx cabinet to reconsider the position. Late last year it promised "social pensions" not exceeding 1000 gold marks a year to such of the original loan subscribers as are destitute. After listening to sharp criticism of this attempt to differentiate between original and later bondholders, the cabinet began to consider a new scheme. This was to issue a new 50 gold mark bond in place of every old 1000 mark bond. Only "old" bondholders, who purchased before July 1, 1920, were to benefit from this 5 per cent revaluation. Were this method extended to all German public bonds, many Americans would benefit considerably. American buying of German municipal bonds took place largely in the first half of 1920, when the mark was depreciated to about one-tenth of its original gold value; and a 5 per cent revaluation would mean for such buyers the regaining of 50 per cent of their investment. A bankers' committee was appointed to consider whether the proposed distinction between "old" and "new" bondholders could in practice be made. But the Luther cabinet has abandoned this plan. According to the new finance minister's statement to the Reichstag of late January, only original subscribers to loans will be compensated, as in the Marx Cabinet's first plan. If this decision is held to, foreign bondholders will not get a cent.

The state loans question settlement will in the end be determined by the fact that the republic does not possess the cash for any considerable revaluation. The question of revaluation of private mortgages and industrial bonds is complicated by the fact that the debtors often are very prosperous. The question is whether the Third Taxation Decree of February 15, 1924, shall be amended in principle or only completed in detail. In principle this decree proclaimed for a 15 per cent restoration of the original gold value of mortgages and private bonds. Having got so much, naturally the creditors demanded more; and again would-be Reichstag members promised more—on condition they received votes. Business circles are emphatic against increasing the 15 per cent. Representatives of industry, trade, and banking have protested against the plan, declaring that it means renewed uncertainty and insecurity, and that it might even threaten the currency; and they allege that this view is also held by the Reichsbank. As the new gold mark corporation balance sheets have been compiled on the 15 per cent basis, an increase (the new rate suggested is 25 per cent) would require complete recasting of balance sheets and new reductions of capital. Naturally the conflicts of interest are here direct and acute; and probably no problem will test the Luther cabinet so severely as the opposition between debtor and creditor interests in the private domain.

Highlights in Deposit Building

By W. R. MOREHOUSE
Vice-President, Security Trust & Savings Bank, Los Angeles

Growth Ranks Next to Safety in Importance to Banking. Banks Should Impress Community with Part Growth Plays in Its Welfare. Dangers in Personal Solicitation of Savings Accounts. Six Suggestions for Banks to Build Up Volume of Deposits.

NEXT in importance to Safety is growth. Without it there would be no future in business.

Banks are leaders in all community development. A community grows only when its banks grow and prosper. Establish a progressive bank in a dead town and the town begins to take on new life.

As a rule, every modern bank building is a monument to the influence of bank progression. Every increase in a bank's staff is another expression of bank growth.

My first suggestion is that the banker use every means at his command to impress upon the minds of the people of his community that they actually help themselves when they take an active interest in the growth of his bank.

Pass out over the counters to depositors folders and booklets calling attention to the various services the bank has to offer them, and suggest that they commend the bank to their friends.

Inclose with every dividend check to the stockholders a slip calling to their attention the fact that if they will use their influence among their friends they will be instrumental in increasing the bank's business and will profit proportionately.

Assemble the bank officers and employees occasionally for the purpose of considering ways of increasing the bank's business. Point out that the advancement of each officer or employee depends largely upon whether or not the bank grows and prospers. Be frank and state that the best way for them to advance in rank and to increase their salaries is to help increase the bank's profitable business.

Figuratively speaking, "sell" the bank to every person in the community and to every customer, stockholder, officer and employee, and "sell" it on the basis of how the growth of the bank benefits them.

Profitable Business

GREAT volume and rapid growth are often deceiving. Great volume of business does not always mean large profits. It does not always indicate that a bank is accumulating a good surplus. The reason for this is not hard to find. In their pursuit for a great volume of business some banks accept every class of business, regardless of how desirable or how profitable it will be. They gather thistles with the wheat. The practice of going out into the byways and the highways and inveigling people to come in and open accounts, regardless of the profitableness of the business, is, in my opinion, unsound banking. Every time they accept an undesirable and unprofitable account they increase their liabilities.

In the clamor for great volume and for large numbers of depositors some banks keep a corps of door ringers in the field, with the result that they are gathering in a lot of undesirable business, which is only natural of course, the undesirables being first to respond.

The time is near at hand when banks will cease to compete for volume only and will turn to quality business. When that time comes a bank account will not be valued on the amount of its balance but on the amount of net profit which a bank is able to realize from it. Volume without a reasonable profit spells decreased bank earnings, and no bank can afford to go along blindly increasing its burden of expense at every turn.

Personal Solicitation Dangers

PERSONAL solicitation of accounts as a practice is gaining headway. Banks not only "wink at it" but they openly indorse it. Bank representatives are going up one side of our streets and down the other side ringing door bells. Some of these representatives are working on a commission. Personally I regret this, for I can feel that bank business-getting with certain banks has fallen to the level of methods used in selling books, photographs and brooms. House to house solicitation, if permissible at all, should be done only by an employee of the bank working on a salary and not on a commission. This will insure a higher type of solicitation. If done by irresponsible persons working on commission, there is certain to be a lot of kick-back to it. Naturally more undesirable business will be secured than desirable, glowing promises will be made which cannot be kept by the bank, concessions will be pledged which cannot be fulfilled, satisfied customers in other banks will be made suspicious and dissatisfied, and confidence will suffer a general breakdown.

If clean sweep methods of personal solicitation are employed, the results will be equally unsatisfactory. Besides securing undesirable business, the bank's present customers will be solicited and will feel offended upon being apprised of the fact that evidently their bank was unaware of their patronage. If personal solicitation is engaged in, a bank should use only those of its employees who have proved themselves capable representatives of the bank. This type of solicitor will secure desirable business and will build up confidence wherever he operates. He will be able to answer correctly and intelligently nearly all questions asked concerning his bank, a service not possible where the solicitor is a comparative stranger in the city.

Employees' business-getting contests are considered by many bankers as the most effective method used today to secure new business through personal contact. Imagine the advantage of having every employee of the bank looking for new business. Observe that this kind of work develops rapidly into an endless chain. An employee secures the cooperation of his relatives, friends and customers: his relatives, friends and patrons secure the cooperation of their relatives and friends, and so the sphere of influence widens and widens almost without limit.

The results are not entirely confined to new business. Almost simultaneously with the starting of an employees' business-getting contest the bank's service to its depositors begins to improve. Another consideration of importance is the permanency of the business secured. By actual tests it rates about 20 per cent better in this regard than business which comes in response to other mediums. Last but not least in importance, the small amount which a bank pays to its employees for new deposits, only about one-fourth of 1 per cent, goes practically 100 per cent to its own employees.

Service Not Overworked

SERVICE is a word which is very much overworked, while that for which it stands is very much underworked. Convenience represents about 33 1/3 per cent of efficient service. People prefer to bank with the most convenient bank, all other things being equal. Convenience is bank location plus. It includes conveniently arranged bank lobbies, ample desk space, good stationery, good light and adequate signs giving directions.

Efficient service includes an economical use of the customer's time. More people determine the efficiency of a bank's service by the time it takes them to transact their business than by any other one standard of measurement. Be prompt to volunteer assistance and prompt in completing a transaction. Never keep patrons waiting unnecessarily.

Be explicit and always give a reason for not granting a favor. Unless the bank worker gives a good reason for saying "no," the patrons will go away feeling that he is unaccommodating and arbitrary. Never tell a patron to fill out a deposit ticket without showing him how to make it out, if he does not know, or he will go away no better qualified than when he called.

Encourage every one in the bank to smile more, to use "please" more and "I thank you" more. Urge them to be more patient and more considerate of others. Impress upon them the importance of always giving correct directions and correct information, for nothing provokes customers quite so much as being misdirected or misinformed.

The quality of service rendered by your bank can easily be tested. Is the bank pleasing a majority of persons who are hard to please? Or are the easy going type only being pleased? If the bank is successful in handling a majority of the hard cases, then its service is efficient; if not, then it is not efficient.

Quality Circulation Needed

LOCAL publications in which the bank advertises should be carefully scrutinized. I firmly believe banks should know more about the circulation of these publications. Three terms are being used by solicitors to convey an idea of the circulation of the medium they represent, readers, press run and circulation. To many bankers these terms are one and the same. But they are not the same, there being about as much difference between the term "readers" and "circulation" as between a banker and a cowboy.

More important than mere circulation is quality of circulation. A bank should confine its advertising to quality publications, and the business resulting therefrom will be quality business.

Getting Newspaper Publicity

ANY news item in which the name of a bank is prominently mentioned arouses unusual interest from the average reader, because a large majority of newspaper readers have bank accounts. To most of them a bank is their financial headquarters.

The big stumbling block which so many bankers encounter is getting news items published. In each case there is probably a good reason for their failure. Likely, the banker and the publisher are not on the most friendly terms. According to the admission of a certain banker, with whom I discussed this same problem, he had been fighting the editors of his local papers for three years, trying to force them to run news items. I sensed his trouble in an instant and told him that had he spent the same three years in cultivating the friendship of these editors instead of fighting them, he would be running news items today.

Here are a few suggestions on getting news items published:

1. Advertise in the newspapers.
2. Cultivate the friendship of the publisher.
3. See that all items sent in contain news of general interest to the public.
4. Give every publisher an exclusive story by re-writing each item published in different papers.
5. Never over-work the privilege.
6. Invite the publishers to revise all items —never insist on sticking to the wording of the bank's copy.
7. Keep items down to 350 words or less.
8. Tip-off publishers occasionally on where and how they can get good news stories.

By observing these suggestions, it will be surprising what whole-hearted cooperation can be received from editors.

Selecting Home Safes

THERE are millions of home safes, commonly called "small banks," in use today. If standard in design and of durable material and construction, they should be charged to the furniture and fixture account and not to advertising. For any banker to tolerate them as a necessary evil or affliction is not fair to himself or to the "home safes." If he cannot boost them, and in every way make the best possible use of them, of course they will not have an opportunity to make good. A number of tests which any bank can make in selecting a good style of home safe follows in the order of the importance of each item. First: Portability. It is of the greatest importance that a safe is of a size and shape that it can be conveniently carried to and from the bank. If not, it will never be used to any extent. Secondly: It should be practical. Unless a safe will receive coins of various sizes, also currency, it is not practical. Thirdly: Durability. Safes should be durable, both as to materials used and construction. Any safe that quickly gets out of working order or that quickly loses its original finish is soon discarded. Fourthly: Attractiveness. Safes must be attractive, especially if used by children, and lastly, safes should be standard in design. If standard they do not go out of style, which is one of the drawbacks to safes that are novel or seasonal; besides, the upkeep and replacement of standard safes is much less.

Using Novelties or Gifts

IT is my recommendation that banks make it a rule never to buy a specialty before they have formulated some plan of distribution that will meet with the approval of all of their customers. The day has passed when it is regarded as good business for a bank to give gifts to certain of its customers and to deny the same favor to other customers who call for the same gift. As a rule, unless a bank has a gift for all who call for it, it is advisable not to give specialties.

The bank that gives gifts to its customers and turns away strangers who call for the same gift is retarding its own progress. Among the strangers who enter our banks are potential customers.

Here is a test which might be tried out in determining which specialty to use. This test is arranged in order of the importance of each consideration. First, Utility. Is the specialty useful? Will it be used regularly and frequently? If not, it is of limited value as a good-will builder. Secondly, Durability. Has it good wearing qualities? If not, it will soon be discarded. Thirdly, Portability. Is it easily transported or carried on the person? If not it will soon be thrown away. Fourthly, Attractiveness. It should be attractive, but not "cute" or "handsome," and, lastly, it should be Appropriate. Any specialty that will stand this test, providing the bank can afford to buy and give it to all who call and ask for it, is a good specialty to use.

Direct-by-Mail Advertising

MAILING lists and central files, if properly used, will aid in securing new business.

Direct-by-mail advertising, properly handled, is very effective. Improperly handled, it is very wasteful. Success or failure of direct-by-mail campaigns largely rests with the mailing list or central file. In other words a good mailing list is more than half the battle. Too often the failure of a direct-by-mail campaign is charged to the literature used, when as a matter of fact, it is chargeable to the condition of the mailing list or the central file. A mailing list or central file to be effective needs constant attention. Many banks have gone through the sad and expensive experience of building up a mailing list or central file only to find themselves confronted with the perplexing problem of finding a continuous use for it. The reaction of this embarrassing situation has been to seriously hurt the reputation of direct-by-mail advertising.

If the bank has decided to use direct-by-mail advertising, and is inexperienced in the use of the medium, it should be sure to secure the assistance of a specialist. Never go to the expense of building up a list or central file until it has been definitely decided what use will be made of it, not once, but over and over again. Give full consideration to its upkeep. Unless the bank is convinced that it can be kept reasonably free of dead timber, it should not go ahead with it. One thing certain, that unless a way is provided for keeping the dead names culled out and the addresses of others revised, it will soon become a total loss. After a bank is satisfied as to the utility of a list, the next step is to count the probable cost of using it, not only once, but for months and perhaps years. Direct-by-mail is a very effective medium when properly used. Except when used on a small scale, it should be under the supervision of a specialist, otherwise the results will not justify the cost of operation in time, effort and money.

Who Gets New Business?

THE bank should occasionally take an inventory of business-building mediums used. If it is using mediums which are not producing good results, replace them at once with mediums which secure good returns. In other words, cut the dead timber from the advertising program.

If there is but little interest manifested in any bank over getting new business, it is time something be done to arouse interest. A bank cannot afford to neglect those agencies which influence its future growth.

If any bank does not have a specialist in charge of new business, and conditions do not fully justify one, select some person in your institution whom the management feels has ability along business building lines and let him assume all responsibility for the new business activities of the bank. If this person is inexperienced in business-building or has only a limited knowledge of such work, he can acquire a fair knowledge by reading articles and books treating with the subject and through correspondence with bankers who are experienced.

The Balance of Power in Railroad Consolidations

By CHARLES F. SPEARE

Urgent Question Is to Settle Difference of Opinion between Four Systems Which Under Proposed Consolidations Would Have Half Gross Earnings of All of America's Railroad Revenues. Part Being Played by Van Sweringens in New Alignment.

WHILE railroad consolidations have been going forward in other parts of the country, notably in the Southwest and in that area of the Lake region to be controlled by the greater Nickel Plate system, the matter of bringing together what may be characterized as the auxiliaries or dependencies of the trunk line roads has so far reduced itself to a discussion of what may be done in groupings that will not disturb the present balance of power in mileage and in gross earnings.

It should be remembered that the problems of the eastern lines serving the territory between the Atlantic seaboard, the Great Lakes and the St. Louis gateway are quite distinct from those in any other section of the United States. First of all they have been active for years in knitting together related and parent lines. The Pennsylvania Railroad, for example, has dissolved the corporate entity of many quite sizable roads in order to bring them into a complete union with its policies and thereby to render a more economical and continuous operation of its properties. The New York Central Railroad has cut to the same pattern. There still remain in the financial structure of the Vanderbilt line the titles of Lake Shore and Michigan Central, but they have lost operating status. As a result we have the Pennsylvania today with a mileage of 11,561 and the New York Central with a mileage of 11,785, one the equivalent of the completed Missouri Pacific group (See AMERICAN BANKERS ASSOCIATION JOURNAL for December, 1924) and the other within 2000 miles of the proportions of the so-called Van Sweringen system since the Chesapeake and Ohio, Hocking Valley, Pere Marquette and Erie were added to it.

Disarrange Old Plans

IN stepping into the eastern situation the Van Sweringens have quite completely disarranged some of the plans in the minds of other railroad men. They have also thrown over a number of the leading suggestions in the Interstate Commerce Commission's tentative scheme of railroad consolidations. We shall find them later in this article sitting with some of the high cards in the game of railroad strategy now being played. The Baltimore and Ohio is the fourth system in the suggested consolidation of the eastern roads and smallest in point of miles operated and therefore the one most concerned with negotiations that may tend to still further add to the balances of power located with competitor lines.

Commerce Commissions Scheme

IN the scheme of railroad consolidation put forward by the Interstate Commerce Commission "in order to elicit a full record upon which the plan to be ultimately adopted can rest" the trunk line systems were left about as they stand today. In the New York Central group are to be found those roads which now are controlled by the Central through stock ownership, and in addition, the Western Maryland which already has a close traffic relationship with it, and three New England lines, the Boston and Maine, Maine Central and Bangor and Aroostook. The Pennsylvania group likewise is composed of roads already in the family with, however, the Norfolk and Western, in which the Pennsylvania has a large investment, placed in system 9 of which it is the central property. In the case of the Baltimore and Ohio the important changes recommended are the inclusion of the Chicago, Indianapolis and Louisville, or Monon system, now controlled jointly by the Southern Railway and Louisville and Nashville, the New York, New Haven and Hartford and two hard coal roads, the Lehigh and New England and Lehigh and Hudson. System 4 was to be built up around the Erie to which were to be attached such strong roads as the Delaware and Hudson, the Lackawanna and the Wabash lines east of the Mississippi. System 5 was designated as the Nickel Plate-Lehigh Valley group with these lines and the then existing dependencies of the Nickel Plate, together with the Wheeling and Lake Erie and Bessemer and Lake Erie, brought together under one management.

Railroads the Chessmen

THE consolidation of the railroads of the United States into a few great systems for the betterment of transportation and of investment is one of the mammoth economic movements of our time, not only of the highest economic importance to the country but one which also appeals to the imaginative and dramatic instinct. For here we have the spectacle of railroad magnates engaged in a game of super strategy, which like the partition of Europe after the great war effected business enterprises, opportunities of both individuals and communities and has a direct bearing on the present and future value of investments. In the accompanying article the author, Charles F. Speare, a trained and seasoned observer of the railroad industry presents a valuable as well as an interesting picture of what is going on in a game in which railroads are the chessmen.

Buying Other Lines

NOW the Van Sweringens had ideas of their own as to what should constitute the partnership which they were forming with the Nickel Plate, purchased by them from the Vanderbilts, as the nucleus. In turn they supplemented their Buffalo-Chicago line with the Toledo, St. Louis and Western, bought in the open market, and by the Lake Erie and Western also secured from the Vanderbilts. Then quietly they began buying control of the Erie Railroad as the line which best seemed to supplement those owned and to give the most satisfactory facilities between Buffalo and tidewater. Later, through negotiations with the Huntington interests and others a majority of the stock of the Chesapeake and Ohio, and with it, the Hocking Valley was purchased and still later the operation was repeated with the Pere Marquette. So what the Van Sweringens had done was to consolidate into one system of their own four proposed systems in the Interstate Commerce Commission plan. More than that, they had knit together somewhat illogically, I believe, six roads with a mileage close to 10,000 and had created a new "balance of power" in the eastern railroad situation. Instead, therefore, of having three trunk line roads to divide among themselves the unattached properties in the eastern territory, there were four, and every move or conference that has

taken place in the past nine months has been predicated on this situation.

The Urgent Question

WE may at once eliminate any consideration of a consolidation of the trunk lines with the New England roads. If this ever comes about it will only be after the former have effected the changes which they now believe to be necessary in order that each may have an equal opportunity in the New York-Buffalo-Chicago-St. Louis-Philadelphia-Baltimore-Pittsburgh districts. The urgent question is to settle the differences of opinion existing between the four great trunk line systems which represent about 15 per cent of the railroad mileage of the United States, but as proposed in the suggested consolidation, would have gross earnings per annum of nearly $2,900,000,000, or about 50 per cent of all American road revenues and net railroad operating income of about $450,000,000, equaling 33 1/3 per cent of the total.

For years the Baltimore and Ohio with the New York Central has held the controlling interest in the Reading Company to which the Philadelphia and Reading Railway is related and over whose tracks and those of its affiliate, the Central Railroad of New Jersey, the Baltimore and Ohio gains its entrance to New York. The New York Central was ambitious to obtain another line from tidewater to Chicago and made a vigorous campaign in Pennsylvania for over a year to win communities along the Reading to a project which would have seriously crippled the Baltimore and Ohio. Before he died the late A. H. Smith, president of the New York Central, is said to have realized that the Interstate Commerce Commission was not likely to allow the separation which he had recommended. Meanwhile the Nickel Plate had come into possession of the Erie, and it was reported that control of the Lackawanna was being purchased for the same interests. The Vanderbilts have two lines into the port of New York—the New York Central and the West Shore—but the stream of eastbound traffic is steadily rising, and they recognized the need of still a third line. Then there was the element of a new "balance of power" ever present in their minds as in those of the Pennsylvania and Baltimore and Ohio managers. This may have caused them to turn toward the Lehigh Valley Railroad as the most satisfactory supplement to the lines already owned. Whether or not they have a dominant position in this road today has so far not been disclosed, but it is a fact that the price of Lehigh Valley stock nearly doubled in market value in a comparatively short time last year, due to some mysterious buying power. Naturally the "balance of power" in the eastern territory would be disturbed should such a change of control be effected and the suggestion of it has very probably led to the thought by all concerned of new alignments. There had been for some time the belief that a four-system plan to cover the eastern or trunk line region would best serve the patrons of that territory and that this system would have to be built around the Pennsylvania, New York Central and Baltimore and Ohio. When the Nickel Plate emerged as one of the strong combinations it was obvious that it, too, must be included in the plan. Therefore, in the conferences which began last May the Van Sweringens had an equal voice, with representatives of the three big systems mentioned, in all of the deliberations leading to the proposals which are now to be outlined.

Access to Sources of Fuel

IN planning the four-system group the major premises were that each system should have adequate access to the sources of fuel supply and should participate in the commercial distribution of coal; that they should have access to at least two of the five principal North Atlantic ports and to the lower Lake ports, and that so far as possible, mileage, property investment, gross earnings and net operating income should be equalized.

In the recommended plan the tonnage of anthracite and bituminous coal originated on each of the four systems would be as follows:

	Tons
Pennsylvania	100,778,396
New York Central	67,177,362
Baltimore and Ohio	77,828,554
Nickel Plate	86,157,679

Nearly 89 per cent of Pennsylvania's total would be of soft coal and about one-third of Baltimore and Ohio's tonnage would be of hard coal, reflecting the movement of anthracite over the Reading and Central of New Jersey. The great contribution of the Chesapeake and Ohio to the Nickel Plate system is its soft coal business which is apparent in more than 70 per cent of bituminous in the total of 86,157,679 tons probable, the Erie contributing the greater part of the anthracite listed.

Of the ports served the Pennsylvania would have New York, Philadelphia, Baltimore and Norfolk; the New York Central, New York and Boston, the latter through the Boston and Albany, the Vanderbilt line being the only one of the four to penetrate the New England territory. The Baltimore and Ohio would enter New York, Philadelphia and Baltimore and the Nickel Plate, New York and Norfolk. It will be seen that the Pennsylvania reaches one more port than do any of its competitors.

Distribution of Territory

IN the distribution of territory the density of population is a most important consideration and while the entire area to be covered by the proposed four-system plan is closely populated there are advantages to railroads occupying certain parts over those in other parts. To illustrate:

In the allocated section of the Pennsylvania Railroad there would be 38 cities with a population of more than 75,000, or with a total population of 19,282,647 and in that of the Nickel Plate, 34 cities with a total population of 16,672,717. The Baltimore and Ohio would have only 32 cities but their total population would aggregate nearly 18,500,000.

Now as to comparative figures of earnings and property investment. As set up in the recommended plan these would be as follows:

	Mileage	*Property Investment*	*Gross Earnings*
Pennsylvania	16,237	$2,726,273,660	$936,517,312
New York Cent.	15,745	2,345,862,825	832,124,017
Balt. and Ohio	13,465	1,842,514,527	575,289,087
Nickel Plate	13,056	1,806,392,906	534,861,064

It will be observed that in this arrangement, which was the result of many conferences and to which the New York Central, Baltimore and Ohio and Nickel Plate agreed, their competitor, the Pennsylvania, was allowed nearly 500 more miles of road and $104,000,000 greater gross earnings than its nearest rival and 3181 more miles and $402,000,000, more gross revenues than the Nickel Plate. To the Pennsylvania in the suggested plan was given the Norfolk and Western and the Chicago and Alton lines east of St. Louis and Springfield, Ill., and also western lines of the Grand Trunk Railway, adding to the present system roughly 3600 miles and about $140,000,000 in gross revenue.

The other important allocations were: to the New York Central, the Lehigh Valley Railroad, New York, Ontario & Western, a part of the Buffalo, Rochester and Pittsburgh, and the Ulster and Delaware; to the Baltimore and Ohio, in addition to the Reading and Central Railroad of New Jersey, in which it already has a large investment, the Chicago, Indianapolis and Louisville, Western Maryland and Ann Arbor, and to the Nickel Plate, the Virginian Railway and Delaware, Lackawanna and Western in whole. Then there were partitions among the four roads of such lines as the Wheeling and Lake Erie, Delaware and Hudson, Lehigh and New England, Lehigh and Hudson, Pittsburgh and West Virginia, and Buffalo and Susquehanna, with the idea of joint operation of these roads which were not essential in their entirety to any one of the four systems, but which filled in certain gaps for individual roads in the general scheme of modelling a four-system plan that would seem to be equitable and of about the proper relative proportions.

The Balance of Power

HOWEVER, the Pennsylvania Railroad dissents from many of the more important recommendations of the original consolidation scheme. It asks for the Lehigh Valley, which had been assigned to the New York Central, in order to strengthen its position as a New York-Buffalo line. It would also take a one-half interest in the Virginian which was to go to the Nickel Plate. Most striking of all of its requests is that it should be given a one-quarter interest in both the Reading and Central Railway of New Jersey, thereby reducing to a minority the present majority interest of the Baltimore and Ohio in these roads, without which it would end at Philadelphia instead of at New York. This suggestion on the part of the Pennsylvania strikes an outsider as similar to some of the territorial partitions arbitrarily made by strong nations following the Great War. If the different groupings suggested were to be carried out in the so-called "Pennsylvania Plan" the Pennsylvania Railroad would have not 16,237 miles, which as has been said, is 3181 miles more than the Nickel Plate's proposed system but 19,385 miles with the Baltimore and Ohio and the Van Sweringen properties having shrunk respectively 2100 and 490 miles. It is obvious that this would be too great a "balance of power" to be permitted. It is our belief that eventually the consolidations will be carried

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Bankers' Balances As the First Sign of the Turn in Money Demand

By REUBEN A. LEWIS, JR.

Recall of Surplus Funds Sent to American Money Centers by Country Banks One of the Early Indications of Credit Demand in Interior. Movement of Balances Like a Bell Buoy in Showing Current of Rates. Figures Recently Made Available.

ONE of the first signs of a turn in the demand for credit may be observed in the recall of balances that country bankers maintain with large banks in the American money centers. The funds sent on to New York represent the surplus that is not needed temporarily in the operations of the interior banks and rather than have the dollars remain idle in their vaults, the country bankers transfer them to the principal money marts where they may earn a low return at call money rates and still be subject to withdrawal upon demand; or where they may be put on deposit at higher rates.

The yield on these balances is generally materially less than the country banks obtain on the loans they make to their customers. So when demands for credit appear in their communities, the country bankers' first move is to recall the money on deposit in New York or in some other reserve city, for it is the cheapest money that a bank may obtain for loaning purposes. Thus while the major American money center is the point at which surplus funds are first reflected, it is singularly the point where one of the initial indications of an increase in the demand for credit in the interior may be observed.

Bankers' balances play a sizable part in the operations of the New York Stock Exchange, for the big New York banks loan this money out to the firms on call. The borrower must put up as collateral stocks and bonds regularly listed on the exchange so that, if he should not pay the loan when called, the securities might be converted if necessary into cash within the twinkling of an eye. Statistics showing stock exchange loans are not available, but it may be stated upon competent authority that the trend of these loans closely parallels the trend of the amounts due to the out-of-town banks. The balances are used for other purposes than stock exchange loans, however.

Importance of Balances

AN idea just how important bankers' balances are to the New York City banks may be indicated by the fact that they are generally more than twice their time deposits and constitute about one-fourth of all the deposits that may be withdrawn on demand. Early in February the 67 New York member banks reporting to the Federal Reserve Board disclosed that they had $1,181,823,000 due to outside banks. The balances are considerably larger than the reserve deposits that the New York banks keep with the Reserve Bank so that when there is even just a moderate withdrawal of funds by the correspondent banks in the hinterland, the banks resort to borrowing at the Federal Reserve Bank.

In the days prior to the establishment of the Reserve System, the withdrawal of the bankers' balances frequently knocked the props out from under the credit structure and in 1907 threw the market into a memorable panic. For, when the country banks withdrew their surplus funds, the New York banks first called the loans made to firms on the stock exchange. This sent the brokers scurrying for money. The dumping of securities on the exchange caused breaks in the values of stocks and, in due course, a money stringency developed. The strain that the recall of these balances formerly worked on the banks has now been relieved and there is not apparent such a striking fluctuation in the supply of funds.

It was the accumulation of the bankers' balances during the past year that proved to be such a big factor in bringing about a low level of money rates. There was a plethora of loanable funds and an absence of an active commercial demand for money. This caused millions of dollars to be sent to the money centers by the country banks which were disposed to accept a small rate of interest rather than nothing on their money. But so long as there was an abundance of funds available for loans, the rates on loans continued low.

The Return Flow

THE credit requirements of the different sections of the United States vary widely, due to the seasonal demands for financing the movement of the crops, the stocking of merchandise and various industrial activities. During the times when the demand for credit is relatively slack, the surplus funds move to the money centers. As the demand of the customers of the banks in the interior for accommodations increases, there is a return flow. The fluctuations indicate to some extent the net movement of funds from one section of the country to another and show why changes in the balances have a real influence over the ups and downs of money rates. The seasonal demands for credit explain, in a measure at least, why there is such a variance in the rates at which money is loaned out in the various sections of the country.

It is only recently that light has been turned upon the fluctuations in the bankers' balances. For many years it was considered inadvisable to reveal the balances that banks in New York and other centers held for country banks, because this data was regarded as confidential. However, the Federal Reserve Board now has started to make available weekly the total amount of bankers' balances held by the reporting member banks in the twelve regional cities. By examining these it will be possible to observe the signs that foreshadow a stiffening in money rates in these centers.

The past year witnessed a sharp upward turn in bankers' balances. During the first five months the total hovered around the two billion dollar mark. In June there was a material increase, balances rising $360,000,000. Slightly more than half of this amount appeared in the returns of the New York banks. There was a steady upward trend in the volume of balances in July and August, while the highest point for the year was reached in September when the total amounted to $2,657,716,000. The fall demands for credit in the interior cut down the balances during October and November, but there was a further accumulation during December. At the close of the year the balances amounted to $2,635,368,000.

Month by month the total of bankers' balances in the twelve centers were:

January 30	$1,982,989,000
February 27	1,970,023,000
March 26	1,984,873,000
April 30	2,092,345,000
May 28	1,931,408,000
June 25	2,291,217,000
July 30	2,463,587,000
August 27	2,492,396,000
September 24	2,657,716,000
October 29	2,590,888,000
November 26	2,528,201,000
December 31	2,635,368,000

While New York is recognized as the money center of the country, the figures reveal that Chicago, Philadelphia, Boston and the other reserve cities have experienced a greater proportional increase in bankers' balances.

The balances on deposit in New York commonly have been somewhat less than one-half of the total, but the percentage held declined somewhat during the past year.

The Practical Value

FROM the standpoint of the practical banker, the figures showing the movement of bankers' balances in New York and Chicago may be likened unto a bell buoy. They

J. Sheehan, President, Nevada Bankers Association

help to keep him in the right channel. By themselves, and without the other aids to indicate how the money currents are running, these newly available figures would not be enough to guide him along the safe course. For bankers' balances are, perhaps, the most sensitive funds that find their way into the banks in the big money centers. When the call rate goes up, the balances come bounding in. When the rate goes down below a certain figure, the country bankers recall their balances. When the balances pile up in New York, more money than can be used accumulates—and down goes the return.

Inasmuch as the rate paid for the use of call money by the stock exchange firms more or less governs the rate of interest that the New York banks pay the country bankers on their balances, it might be a natural assumption to think that the exchange had a first call on the money. The reverse is more nearly true. The big institutions in the money centers use the funds first to accommodate their own customers, who naturally are entitled to prior consideration. After these demands have been met, the surplus in the pot is invested in commercial paper, government issues or other short-term securities. Inasmuch as a goodly portion must be kept in a highly liquid state—for how quickly the balances will be recalled cannot be foretold—some of the funds are put on call. The weekly statement of the condition of member banks of the Federal Reserve System in New York will indicate what proportion of the bankers' balances are devoted to call loans because the member banks report how much loaned is secured by stocks and bonds. While not all of this represents loans for stock exchange operations, it is the greater part.

Signs of Higher Rates

IT is a part of good banking to be able to foresee what is going to happen in the way of interest rates. And, of course, there are many signs of a stiffening in money rates. The movement of bankers' balances, the latest of these aids to become available to the forecaster, undoubtedly will be a help. One of the indicators of what will happen is the buying of commercial paper by the banks in the interior. During the times of easy money they purchased rather heavily. During the past few weeks it has been noted that they are buying less. The daily statement put out by the New York clearing house contains a few significant figures. All of the banks must maintain a certain reserve, and the amount in excess of the required reserve is closely watched because if it goes below the line the bank must resort to borrowing to bring it up. The open market operations of the Federal Reserve Bank can greatly affect interest rates, so its activities must be followed to judge the future trend of rates.

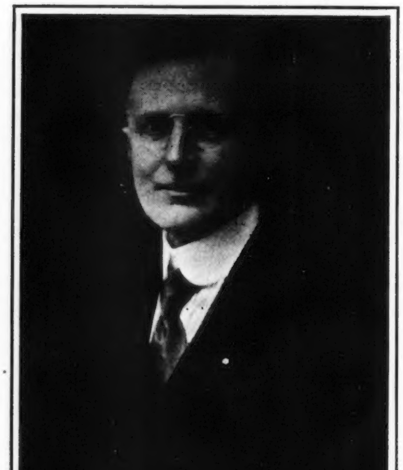
At certain seasons of the year, the experienced banker, charged with loans from the balances sent in by correspondents, knows there will be upturns and declines, for the seasonal demands for money by agriculture, industry and commerce in the various parts of the country create a need for all the money that a bank can lay its hands on. The movement of balances must be considered in this light. Then, too, he must take into account the accumulation of funds for the payment of income taxes, dividends and subscriptions to the periodical government issues.

What the Figures Show

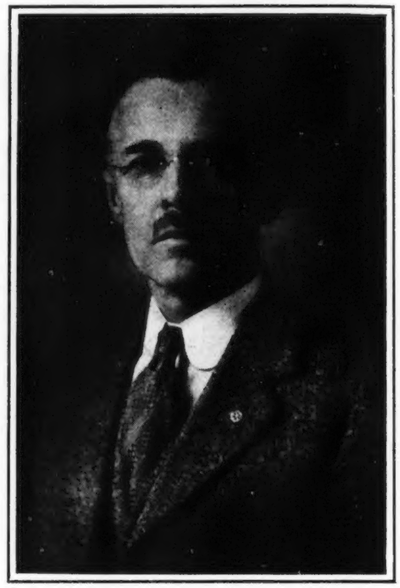
THE figures showing the movement of bankers' balances can now be had for the reporting member banks in the money centers since the beginning of 1923. Taken over a period of years, with due allowance for seasonal fluctuations, it is the judgment of some practical bankers that they will be helpful in prejudging the trend of money rates.

The balances by the months for 1924 in thousands of dollars for Chicago, Philadelphia and Boston were:

	Chicago	Philadelphia	Boston
January	320,224	156,529	110,221
February	347,651	155,639	109,441
March	364,175	158,457	112,238
April	346,366	161,511	121,916
May	351,645	156,787	111,310
June	420,157	189,443	128,218
July	441,669	193,258	136,116
August	473,449	199,479	129,658
September	495,642	217,754	137,640
October	447,795	209,990	146,831
November	412,297	201,717	127,267
December	407,915	192,884	139,011



Walter W. Hynson, President, Delaware Bankers Association



C. M. Willey, President, Vermont Bankers Association

On February 4, the total of bankers' balances was $2,525,869,000.

In New York

BANKERS balances held by New York reporting member banks show the following weekly fluctuations since July in thousands of dollars:

July 2	$1,179,749	October 29	$1,182,963
9	1,182,014	November 5	1,272,298
16	1,236,805	12	1,215,103
23	1,208,558	19	1,203,616
30	1,215,600	26	1,175,323
August 6	1,266,622	December 3	1,245,761
13	1,293,179	10	1,178,861
20	1,185,321	17	1,173,602
27	1,161,963	24	1,122,599
September 3	1,183,237	31	1,304,858
10	1,203,245	January 7	1,322,382
17	1,324,485	14	1,259,556
24	1,241,440	21	1,189,521
October 1	1,324,872	28	1,130,659
8	1,242,176	February 4	1,181,823
15	1,257,582	11	1,213,425
22	1,242,758	18	1,215,374

In 1923 bankers balances reached their low point in August, $833,246,000, and recorded the highest total on Feb. 28, when they amounted to $1,058,851,000. In 1924 the low point was $941,555,000 on May 28, and the high point of $1,304,858,000 on Dec. 31.

The contents of the Protective Section of this issue of the AMERICAN BANKERS ASSOCIATION JOURNAL, and of all issues, are valuable to your bank. Armed with this information, the officers and employees are the better prepared to prevent serious losses due to the operations of criminals.

Banking and Economic Conditions in the Irish Free State

By TIMOTHY A. SMIDDY
Minister to the United States

Banks Have Had a Prosperous Year. Close Relations With the London Money Market. New Government Is Paying Its Way as It Goes. Constructive Measure for the Betterment of Industry and Agriculture. Electrification of the Shannon River.

THE Irish Bank Act of 1845 "regulates the issue of bank notes in Ireland, and regulates the repayment of certain sums advanced by the governor and company of the Bank of Ireland for the public service." In accordance with that Act, the authorized issues of notes (uncovered by gold) were as follows:

Bank of Ireland	£3,738,428
National Bank	852,269
Provincial Bank of Ireland	927,667
Northern Ireland:	
Belfast Banking Company	281,611
Northern Banking Company	243,440
Ulster Banking Company	311,079
	£6,354,494

Beyond this amount any note issued by these banks should be covered by an equivalent amount of gold in the vaults of the issuing banks. By virtue of law currency notes are to be treated as coin held by the bank at its head office or principal place of issue. This made possible the transference to London in 1920 of the gold holdings of Irish banks. Therefore, at present they have little, if any, gold in their vaults as backing for their notes. Currency notes are substituted therefor.

Bank of Ireland

THE Bank of Ireland holds a peculiar position in the Irish banking system. It was established in 1783, and between that date and 1820 its capital was increased at various periods from £500,000 to £3,000,000 in Irish currency or £2,769,230 in English currency. Upon twelve months' notice by the governors of the Bank of Ireland the British Parliament will repay the bank the debt of £2,630,769 British currency, whereupon the bank loses its charter, and the corporation of the bank is dissolved. Yet the bank shall have full power to carry on the business of bankers. So that in the event of this repayment to the Bank of Ireland by the British government, the bank loses its right to note issue.

The relations between the Irish banks and that of the Bank of England especially, and that of the other English Joint Stock Banks is very close. The Bank of England is, directly or indirectly, the banker of practically all the Irish banks; they maintain there certain balances which they regard as cash. By means of these balances the indebtedness of the Irish banks, with one another and with the English banks is readily cleared; they act also as a reserve in case of an emergency, and render unnecessary the movements of gold between Great Britain and Ireland for the settlement of their mutual indebtedness. This arrangement coupled with a common currency, which itself is regulated by banking laws and customs of similar character (such as the rate of interest) avoids between the two countries a rate of money exchange; just in the same way as it is regulated between the different counties of Great Britain itself. It is obvious that any bank in order to keep a large portion of its assets in a liquid form must have available opportunities for loans at call and short notice. If the London money market were not available the banks would be compelled to keep the funds that they at present invest in this manner in the form of cash in hands or in the Bank of England. Thus on these funds no interest would be earned as the Bank of England does not pay interest on deposits. This would result in lower earnings for the banks.

The Irish government will at times need to borrow in anticipation of revenue. When borrowing for this purpose it will issue Treasury Bills, which will be mostly taken up by the banks. But it is doubtful if the number of them would be sufficient to absorb the balance of assets available for these short term and absolutely safe loans. Here against the Irish banks will be compelled to resort to the London money market.

Commercial Bills

COMMERCIAL bills of not more than two months' tenor and which have two good names attached, especially those endorsed by a bank, are not at all of sufficient number in Ireland to absorb the funds of the banks available for this form of investment; so here again resort is necessary to the London market. Even if these avenues to investment were closed to Irish banks the funds so released could not be tied up in long term loans and advances for the reasons already mentioned. With the development of Irish industry and agriculture, of direct trading, and a fully organized stock and produce exchange, a "Money Market" may come into being in Ireland sufficiently extensive to absorb the required proportion of the liquid assets of its banks. But this development will take time and cannot be artificially brought about.

The value of deposits held in the banks of the Irish Free state on December 31, 1924, was £137,000,000; and those in banks domiciled in the six counties under the jurisdiction of the Northern Parliament £52,500,000. About 46 per cent of the assets of these banks are invested in British War Loan and other British government securities—£87,000,000; while roughly 9½ per cent consist of cash on hand and balances with London bankers. The balance of the assets are invested in bills discounted, advances to customers and short loans on securities.

The prosperity of banking in the Irish Free State is obvious from the dividends paid for the year 1924, which are equal to those paid in previous years. The dividends range from 10 per cent, the lowest, to 20 per cent, the highest.

The Trade Balance

ADVERSE comment has been made with reference to the unfavorable balance of trade of the Irish Free State for the eleven months ended November 30. The total imports for that period were £60,857,803; exports, £44,617,186; adverse trade balance, £16,240,617. Before forming an opinion on these figures one has to know what the invisible imports and exports are; and in the case of the Irish Free State the necessary statistics for a correct estimate are not yet available. A creditor country has usually an adverse trade balance. Great Britain has had for nearly a half a century an adverse trade balance of about £200,000,000 annually. The surplus of imports over exports was payment in kind for investments abroad, shipping, banking and insurance services, etc.

Residents in the Irish Free State have investments in British government securities to the value of £95,000,000 and in foreign industrial and corporation securities to the value of about £120,000,000. Invisible exports of claims for interest and dividends for these investments are not less than £10,000,000. Though invisible imports have to be set against these, it is estimated that they are not likely to exceed £3,500,000, while other invisible exports are likely to offset this amount. At all events one jumps at a false conclusion in emphasizing the adverse trade balance as a sign of economic adversity. The large holdings of cash and securities held in Great Britain by banks in the Irish Free State show little sign of diminution during the last year as compared with the previous year, and this suggests that the balance of payments is not very adverse. If

it is adverse, the amount cannot be very large and is possibly due to a higher level of prices in the Free State as compared with Great Britain, which latter can be accounted for by the civil trouble in Ireland in 1922-23 and the consequences arising therefrom. Ordinary economic forces will readjust this difference in price levels in two countries which are adjacent and have the same currency.

It is obvious that the Irish Free State which is a creditor country has within itself large financial resources with which it can finance industrial and agricultural development. Heretofore the opportunities did not exist for such investment. But as soon as industrial schemes are forthcoming which give assurance of success, investors in the Irish Free State will in the natural course finance such schemes. With the general commercial and agricultural development of the country the banks will have a further field for their assets and will thereby diminish the proportion which they at present invest abroad. On the occasion of the first national loan of the Irish Free State in 1923 for £10,000,000, the total amount was oversubscribed by residents of the Free State in less than the allotted time.

A Small Protective Tariff

THE government of the Irish Free State has already begun attacking the problem of a better balance between agriculture and industry in the country. At present it is predominantly agricultural. Of its total exports only 9 per cent consists of what are ordinarily called manufactured articles. The government is attempting a readjustment of this relation by the introduction of a small protective tariff on selected articles which it is hoped eventually will be produced at competitive prices in the Irish Free State. The tariff on imported manufactured tobacco and cigarettes has led to the establishment of three large British tobacco factories, with the result that the large percentage of cigarettes and tobacco consumed therein are now manufactured in the country. The government is also considering the introduction of the beet industry and the manufacture of sugar. The farmers of the county Waterford are establishing a meat packing industry for the supply of fresh dressed meat for the British market, thereby attempting to substitute the export of dressed beef and mutton for cattle on the hoof. This, it is expected, will lead to the creation of many subsidiary industries, such as the manufacture of leather, soap, etc.

The government has also decided to proceed as soon as possible with the scheme for hydro-electrification of the river Shannon—the largest river in Great Britain and Ireland. The detailed report of the committee of European experts appointed to investigate the plans of Messrs. Siemens-Schuckert of Berlin is so convincing that no doubts exist in the minds of government authorities as to its commercial success. The development, expected to be in working order in three years, will supply a cheap and ample supply of electricity for all industrial undertakings and for transport. No difficulty is expected in financing it. The government is guaranteeing one million pounds sterling to public authorities or corporations for the development of industry.

While these measures are being undertaken by the government to promote industry, it is also equally active for the development of agriculture. An act has been passed by which the balance of the unpurchased land will be now vested in the tenants, thereby removing the last vestige of landlordism.

Under a recently enacted law butter and eggs can be exported only from registered premises. The butter will carry a national brand which will be an absolute guarantee of high quality, and the eggs will be tested and graded under government inspection before being exported.

To Improve the Breed of Cattle

A BILL has been passed with the object of improving the breed of cattle. At present 700,000 cattle valued at £15,000,000 are exported to Great Britain. It is expected that within four or five years the value of the cattle will be increased by £2, per head; while the yield of milk will be increased, with the same number of cattle, by 200,000,000 gallons or in current price £7,000,000 per annum.

It is obvious that as these plans develop much capital invested abroad will find a fruitful field at home both by banks and by the public. There are within the state large financial resources to draw from. The condition precedent to all economic development and investment is now achieved, in spite of pessimists, and that is political stability. Political stability is as assured in Ireland as in any other normal country and will be further strengthened by the general establishment and determination to have peace all over Europe.

Taxation is high because the government is exceedingly conservative in finance and is determined to pay its way out of taxes, although it is asserted in many quarters that it should borrow more than it has done on the theory that much of its expenditure is in the nature of capital investment. Yet by its present method government authorities believe better results will in the long run be achieved. Its budget balances and the balance in the Exchequer on February 7, 1925, was £3,992,125.

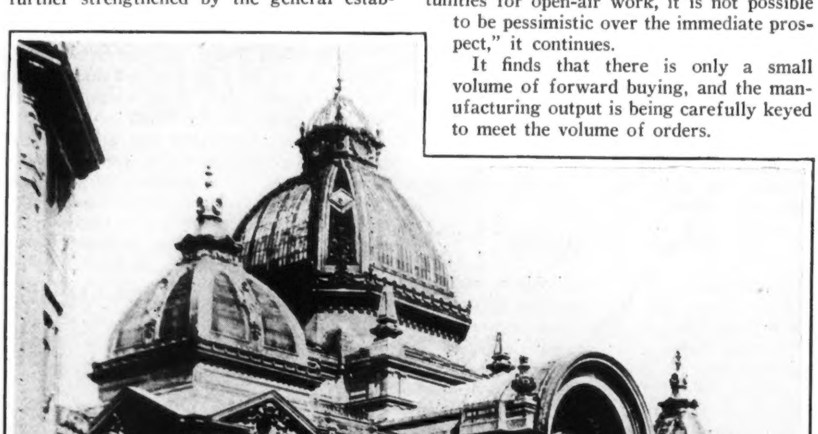
It is estimated that on March 30 next the total indebtedness will not exceed £13,000,000. Already £6,838,000 cash has been paid for property losses and since the establishment of the Free State the annual loss of £1,440,000 incurred in the operation of the post office under the British administration has been reduced to £650,000.

The economic future of the Irish Free State is full of hope.

No Roaring Boom

WHILE "there is no roaring boom in sight," the country "is in a prosperous condition, and the prospect is one of continuing activity," the Mechanics & Metals National Bank of New York declares in its March survey of business conditions. There is a strong buying power which is being favorably and intelligently employed, it sets forth. "So many known factors favor good times that with the country's entrance upon spring, bringing moderate weather and opportunities for open-air work, it is not possible to be pessimistic over the immediate prospect," it continues.

It finds that there is only a small volume of forward buying, and the manufacturing output is being carefully keyed to meet the volume of orders.



This old world edifice, which looks like a palace, is the home of the Bucharest Trust & Savings Bank in the capitol of Roumania

Extending the Service of Expert Money Management

How the Corporate Fiduciary, by Coordinating Its Efforts With the Life Insurance Underwriters, the Bar and Group of Philanthropic Organizations May Deal with Growing Complexities Surrounding Trusts Is Considered at Mid-Winter Conference.

THE means by which the most advanced form of money management can be extended to the American people by the corporate fiduciary were featured at the sixth annual mid-winter conference of the Trust Companies of the United States, held in New York on Feb. 18 and 19. Stressing the need for practical cooperation amid the growing complexities in the social order, the conferees, representing institutions having control over sixteen billions of dollars in resources, concentrated upon a consideration of the life insurance trust as a way of enabling Americans to die at par, and of providing a means of protecting the principal of the estates that are left to their heirs. How the trust companies can work with the philanthropic and educational bodies, having billions of dollars to direct in investments, was brought before the conference, while the early efforts made by a special committee appointed by the Trust Company Division to eliminate the confiscatory and unfair provisions of the inheritance tax and to suggest a uniform method of estate taxation by the Federal and state governments were reviewed.

The work-a-day problems that trust companies are faced with in the administration of trusts were not slighted. Through the medium of prepared questions the conference raised these points and, from the experience of those participating, generally found solutions. By this open forum method trust officers from all parts of the country presented the puzzling situations which seemingly stumped them, while others recited how their own institutions had hit upon novel and successful ways of developing business.

Handicap of Diverse Laws

THROUGHOUT the sessions many cases were cited to show that the lack of uniformity in state laws was making the handling of a trust more and more difficult; however, this situation was tending to bring to the public attention the better service that a corporate fiduciary, with its specialized machinery and rich experience, can render in administering trusts and in dealing with estates.

The novelty of having no set speeches was called to the attention of the conference at the outset by Francis H. Sisson, Vice-President of the Trust Company Division, who said that the two major motives animating the whole meeting was to tell how to extend trust company activities and how to perform them properly.

"We are entering now, it seems, upon a period of prosperity perhaps not as great, nor as rapid as some of us desire, but nevertheless a period of prosperity which we have all felt and can all vision, in which the duties of corporate fiduciaries will be attended with even greater responsibility and perhaps difficulty than in any preceding period," Mr. Sisson said. "The vast wealth which is entrusted to their care and the responsibility which goes with the conserving of property and wealth will be emphasized more and more as the years go by. We will have the problem upon our hands of investing this wealth wisely, not only to obtain the largest return possible in the prosperous days which seem to be before us, but to protect that wealth when the next cycle comes, and the wheel again revolves and deflation follows inflation."

Life Insurance Trusts

HOW the trust companies and the life insurance underwriters may coordinate their efforts was laid before the conference by Leslie G. McDouall, assistant trust officer, Fidelity Union Trust Company of Newark, and Edward A. Woods, vice-president of the Equitable Life Assurance Society of Pittsburgh. Reciting that life insurance policies constituted 81 per cent of all property left by persons dying in the United States, Mr. McDouall stated that it was estimated 90 per cent of all estates of $5,000 and over were entirely dissipated within five to seven years, because these policies were paid out in a lump sum to persons generally who knew little about managing money. He pointed out that some of the insurance companies, seeking to prevent this loss, had developed a system for the payment of these policies in installments, but said that this arrangement had certain definite limitations. Endeavoring to meet this situation, he told how the banks exercising trust powers had developed the funded and unfunded life insurance trusts.

Mr. McDouall explained that the unfunded trust was a simple and sure way to build up an estate, as the insured merely entered into a trust agreement whereby policies now in force, or to be applied for, were made payable to a trust company as trustee. On the death of the insured the trust company collects the proceeds and administers them in accordance with a trust agreement. The funded trust differs in that the insured, at the time the trust is established, deposits income-producing securities yielding sufficient annual income to pay the premiums on the insurance in force or thereafter obtained. The proceeds are managed in accordance with his directions, so that the family's future financial welfare is assured by the superior money management that the corporate fiduciary offers.

A life insurance trust may also be created to help save estates, after they are built, Mr. McDouall explained, in presenting the question of "clean-up" insurance. When a man dies not only does his earning power stop, but his estate accumulates immediate liabilities in the form of immediate cash demands for inheritance and Federal taxes as well as other expenses. To meet these the forced liquidation of estates, with the sale of the most desirable securities, is necessary in many cases.

"Our mission is to help the citizen to leave his estate intact," Mr. McDouall stated. "We can do it by helping him build a super-estate of life insurance equal to the taxes his estate must pay. Instead of the tax problem eating the heart out of his estate, this super-estate of life insurance will be available on his death to cover taxes and other expenses. It is the only safe plan that will enable one to amortize taxes and other expenses payable at a future date. Let me emphasize that the effort of the trust companies to create life insurance trusts is a cooperative endeavor to teach our population sound economic principles and to encourage thrift as a basis for an economic surplus. It is supplemental to the great work of the trust companies and is intended to take up where the average insurance company must leave off."

The Two Missions

STATING that the province of the insurance companies is to build up estates and provide immediate cash to liquidate them, while the mission of the trust companies is to conserve them, Mr. Woods pointed out that cooperation between the two great institutions might be based upon the identity of interests and the fact that the work of each supplements the other. There is no reason why the trust companies should not use the services of the 150,000 solicitors working for the underwriters, he stated.

Mr. Woods discussed the shrinkage that takes place in estates, due to the demands made upon them for death taxes and incidental expenses. He cited the report of

(*Continued on page* 581)

Keeping Savings Banks Assets Liquid

By E. W. WILSON
President, Pacific National Bank, San Francisco

In Scattering Investments, Bankers Must Keep Law of Averages In Mind. Real Estate Loans May Be Improved by Putting Them On Installment Basis. Good Bond House Protects Banks From Bonds Issued by Companies Having Inefficient Management.

NO savings bank could pay its depositors in full if they all asked for their money at the same time. The depositors fully understand this, and they also understand that their funds, when deposited in a savings bank, are invested in securities, or loaned against collateral. They have a right to believe, and they do believe, that these investments will be kept in such liquid form as to provide money for those who desire to withdraw as and when these demands are made. This makes it necessary for savings bank managements to keep their interest return constantly in mind, so that proper earnings are made to pay interest to depositors, cover running expenses, and provide a fair dividend to the stockholders. It makes it necessary, also, for them to keep in mind the class of investment they take on, and the kind of loans they make, so that the bank may be kept provided with funds to meet its daily requirements.

The old adage, "A chain is no stronger than its weakest link," applies admirably to the strength of savings banks. The weakest link in the strength of these institutions is the will of its depositors concerning a desire to withdraw their money. The disposition to withdraw is the result of many things—the fear that the bank is unsafe—a general depression in business—the opportunity of the depositor to obtain a larger income from his money by lending it direct, or by purchasing bonds, stocks, and other securities—too much rain—too little snow in the mountains—the hoof and mouth disease—or any other catastrophe, actual, probable, or prospective.

The Law of Averages

THERE is no rule more necessary for the manager of the bank to keep in mind than that of the "Law of Average." He applies this to the probabilities of withdrawals by depositors, the payment of loans, in whole or in part, by the borrowers. He must think of this law of average when he is scattering his investments; he must think of the kind of securities, the class of business, the locality where the property on which he is lending money is situated, so that while some of the values may decrease, others may increase, to the end that the strength of the bank may not be weakened. He must never lose sight of the "Law of Average."

During the past few years the laws of the different states have become very much more uniform as to the kind of investments which savings banks may make. United States government bonds are the most liquid securities obtainable. They have, however, low interest return, but are usually convertible into cash over night. State, county and city bonds, with higher interest return, with less ready convertibility, but with still a wide market, are legal for savings banks everywhere. Railroad and industrial bonds of a certain standard, and securities of public utilities that measure up to requirement, are looked upon with favor, and when properly selected, have a high standard as savings bank investments. These latter securities (public utility) have been decidedly on the upgrade, as a result of more careful supervision, and are now looked upon with much greater favor than they were a few years ago.

In the making of investments, a selection of those that will keep the bank in liquid condition is the outstanding thing to be kept in mind. There are many factors that enter into the providing of a ready market for securities: The character of the signer of the obligation, the character of the lien that is provided and the margin of safety furnished by the earnings of the institution, the place where the property is located, the chances of improvement in that particular locality, and the past history of the community.

Railroads running through a prosperous country will have that prosperity reflected in the value of their stock. The stock in public utilities located where the business is prosperous and steadily improving has a more ready market than where the business is at a standstill, or going back. Mortgages on farms where the owners are making a profit on their products are kept up better; interest and installments, as provided, are made in a better manner than in localities where prosperity is absent. Location selection, therefore, is highly important.

Real Estate Loans

THESE loans are everywhere eligible for savings banks, and provide the largest part of their investment. The rate of return is usually better than that obtained from other savings bank investments. While the ultimate payment is reasonably certain, these loans are not liquid, and their history is that you have to renew, renew, renew. It is, therefore, not advisable to depend upon real estate loans for your investments in times of stress. Something more liquid, and more easily converted must be held for that purpose. I am a strong believer in the possibility of improving real estate loans by making them upon the installment basis. In city property, this can be done upon a monthly payment plan; in agricultural property, it may be arranged with reference to the products of the farm covered by the mortgage. If in a dairy country, there is a monthly return; while in a fruit, wheat or other grain country, there is only an annual return. If the land produces sheep, it is wool in the spring, and lambs in the fall. If you have these partial payments flowing into the bank, they serve as a great help in times when deposits are normally going down, or in other periods of stress.

In the last analysis, the management of the railroad provides the income which it needs to pay interest on its investments, and makes dependable, railroad bonds and other securities that may be held by savings banks. Men, through economical management, and through aggressiveness, provide the profits with which public utilities take care of their obligations. Men are responsible for the proper selection of good real estate loans, and the elimination of bad ones. Men, also, are depended upon to work out of financial distress agricultural and business concerns which become involved, where their securities have found their way into a savings bank. Men with a clear understanding of the necessity for liquid securities in a bank scatter these among different lines, in different localities, and in different classes of business. So that, unless the men who control the management are right, no matter how long the railroad is, how good a statement the utility can make, or what the history of the industrial undertaking is, the investment should not be passed as satisfactory.

A Good Bond House

THE financial house that furnishes savings banks with bonds and other securities, is a real factor in maintaining that bank's liquid condition. The good house selling securities keeps a close watch upon the concern whose securities it has placed upon the market. It watches the income, the

(*Concluded on page* 596)

The Growing Use of Bankers' Acceptances

By MITCHELL IVES

Nearly One-third of Federal Reserve Banks' Earning Assets Invested in Bankers' Acceptances. Little Stir Made When Buying Rate is Changed. Acceptance Market, Development of Past Ten Years, Now Approaching the Billion Dollar Class.

THERE is a great stir in financial circles when the New York Federal Reserve Bank changes the rediscount rate. Even talk of an impending change sends the money market up or down. The shifting of the rate is a momentous event, for it fixes the figure at which a bank can get credit from the Reserve Bank. And certainly a change in the cost of obtaining credit is not to be regarded lightly.

The spotlight is turned almost as prominently upon the purchases that the Reserve Banks make of Federal securities. For, at a time when the Reserve Bank cannot exert much influence over the market because no one wants to borrow from it, it can extend its influence by investing its earning assets in securities. By buying large quantities of treasury certificates and notes, it can place funds in the hands of banks; by selling securities, it can take surplus money out of the market and cause the banks to borrow to replace these funds. For this reason the financial world keeps a vigilant eye on this phase of the open market operations of the Reserve Banks.

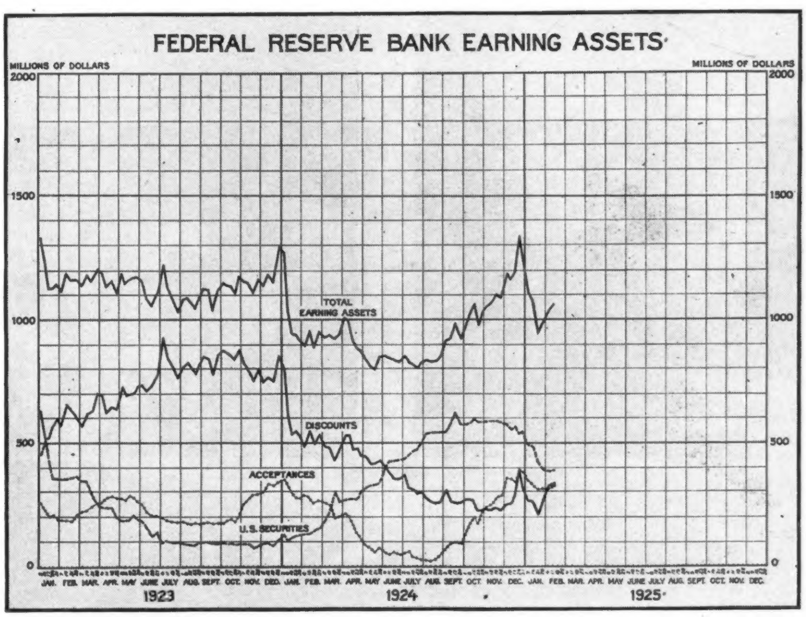
There are three ways in which the Federal Reserve Bank keeps its earning assets employed—by discounting the paper offered by member banks, by investing its funds in United States securities and through the purchase of acceptances and other paper.

Attract Little Attention

A BANK can obtain credit from the Federal Reserve through selling its acceptances just as easily as it can have its paper rediscounted. The figure at which the bank buys the acceptances thus represents the cost of obtaining credit. Whereas there is a great stir when the rediscount rate, which fixes the cost at which credit may be acquired is altered, there is little general notice when the Reserve Bank changes its rate at which bankers' acceptances are purchased. It is not announced by the Reserve Bank, although the banks and dealers learn immediately of any changes.

Why the changes in the buying rates of acceptances do not attract wider attention is a matter of some speculation, but this is partially explained by the fact that the buying rate generally is in conformity with the open market bill rate.

An examination of how the earning assets of the Federal Reserve Banks are employed discloses that nearly one-third of the total is invested in bankers' acceptances. During the last quarter of 1924 the acceptance portfolio was larger than the rediscounts. The value of the United States securities held by the Reserve Banks was only about one-third greater. Yet the acceptance operations scarcely ever appeared in the spotlight of public attention. The resdiscount rate of the New York Reserve Bank was lowered three times during the year. Before and after each occasion there was much discussion. The buying rates on acceptances changed more than twice as many times during the year, and there was scarcely a murmur. However, the rediscount rate was lowered one-half of 1 per cent at a time, while the acceptance rate changes were fractional.



How the earning assets of the twelve Federal Reserve Banks were employed up until February 11. Nearly a third is invested in acceptances.

While the acceptance fills no minor rôle in the open market operations of the Federal Reserve Banks, it takes a major part in the financing of our foreign trade. The research workers of the Reserve System estimate that roughly from one-third to one-half of the importing and exporting of the American overseas trade is financed through the medium of the acceptance. It is a desirable piece of paper, from the standpoint of the System, because acceptances must carry two good banking names and meet other eligibility requirements that make them safe and liquid.

Acceptances of certain types running as long as six months may be purchased by the Reserve Banks, but the ordinary limit is three months. Eligible acceptances are defined by the Federal Reserve Act as those "which grow out of transactions involving the importation or exportation of goods; or which grow out of transactions involving the domestic shipment of goods provided shipping documents conveying or securing title are attached at the time of acceptance; or which are secured at the time of acceptance by a warehouse receipt or other such document conveying or securing title covering readily marketable staples."

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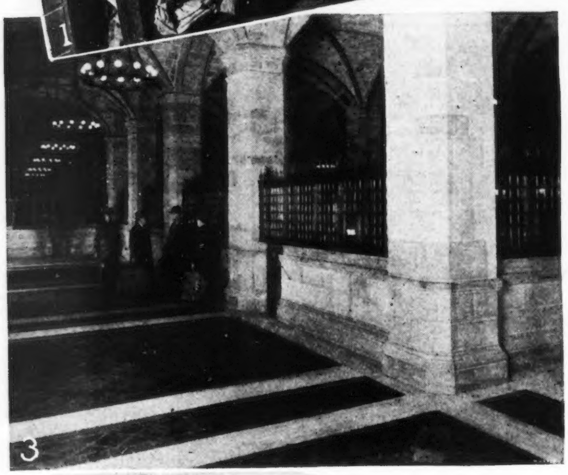
Work-A-Day Scenes in the New York Reserve Bank



Photos by Picture Service Corporation, New York

1. *The mail room, maintained as a branch post office to speed banking operations.*
2. *The transit division, where 400,000 checks are cleared daily.*
3. *The main banking floor.*
4. *Binding money with steel bands.*
5. *The telephone exchange.*
6. *Punching money, preparing it for retirement.*

Some of the Major Problems

By JAMES E. CLARK

A DOCUMENT which should be of nation-wide interest is the "Report of the Giant Power Survey Board to the General Assembly of the Commonwealth of Pennsylvania," a rather dull and drab title for a piece of printed matter suggestive of more real wholesome romance than a group of modern "best selling" books. The report—typical of a general and national movement in electrification—points to a change of far reaching importance, not only in life in Pennsylvania, but throughout the settled portions of our country.

The survey is preliminary to legislation which will unite the scattered and sometimes conflicting power companies, create a common pool of power into which current from all sources will be poured, and out of which current for all uses may be taken. "Giant power," says Governor Pinchot, in a message transmitting the document to the legislature, "seeks the cheapest sources of power, and hence the cheapest rates, while superpower is the interchange of small quantities of surplus power at the ends of distribution wires of each system."

So Pennsylvania contemplates producing its power on a gigantic plan into which shall be brought all power companies; making electric transmission lines common carriers; making electric current available not merely in the neighborhood of power plants, but even back on the farms, and bringing about a uniform price.

And the importance of the Pennsylvania project to the people without that state is that, carried to fruition, the plan cannot fail to be an all potent force in the distribution of the population and in improving the environment in which men and women live and work. If it can be done in Pennsylvania, it will be done elsewhere.

The Governor points out that the development of steam power brought about a radical change in the lives of millions. Before the coming of steam the workers were scattered, and home and cottage industries prevailed. The new power centralized industry, broke up home ties, took the people away from the rural districts and built up cities. Now with electric power transmitted everywhere and available at low prices, as Pennsylvania contemplates, industry may be decentralized to a degree and more people may come to enjoy life in small communities and in rural districts.

That is one feature why the Giant Power Survey and the events that it initiates have an importance not circumscribed by the state lines, for it may mean the coming of a new phase of civilization just as the advent of steam made for a radical change in the lives of multitudes in many nations.

Power and transportation have made the cities and kept them growing, and by the same token new methods of distributing energy may easily re-distribute our populations—and again gradually re-make our destinies.

Cheap Money and Farm Prices

"CHEAP money and lots of it!" was the rallying cry of a small group, who not very long ago were apparently convinced that a cure for the then prevailing ills of agriculture was to be brought about by more money. But later it was the conviction of observers that about the time this slogan was going the rounds, many of the very people whom more money was presumably going to benefit were, in fact, at a disadvantage because they had too much credit! With readily granted credit they had over-extended themselves on the unwarranted supposition that a transitory market condition was going to be a permanent market condition. No one is justified in the assumption that the price of anything salable will be permanent.

Now a combination of circumstances has brought about what is really a condition of "cheap money and plenty of it," with the result that there is criticism emanating from other directions. There is a feeling that there is something wrong about the increase in the price of stocks, though that feeling depends largely upon whether or not the critics own stocks which have increased in market value. To an alarmist there may be something vaguely wrong, because many stocks have gone up so many points, but if it happens, as it sometimes does, that all of a widow's small estate is represented by a few first class stocks in her own safe or in charge of a trust company, seemingly there should be nothing vicious in the fact that her estate has increased in value—especially if she is a few thousand miles removed from the stock exchange.

What has happened on the stock exchange has had its counterpart on the grain exchange in Chicago. Whether the increase in value in wheat came about wholly as the result of natural causes or as a combination of natural and artificial causes matters little to the man who had wheat to sell and who sold it, paid his bills and was thereby enabled to do those things which in his life lay next at hand.

And while it is true that many growers had sold their wheat before the days of the peak prices and that operators gained some benefits from the boom, it is nevertheless an interesting fact that the wheat producing areas have long been engaged in the process of "cleaning up" their debts.

If cheap money has been a factor in stock speculation in New York, then, cheap money cannot be entirely absolved from the charge of being a factor in increasing the price of wheat on the Chicago market. And if the farmer had both stocks and wheat—as farmers sometimes do—and took his profit in each case, perhaps he is not sure that his friends would be helping him if they threw something hard into the machinery of the markets!

Time to Take Up the Slack

SCIENCE and invention, besides turning out work better and faster than before, also throw off as a sort of by-product more leisure for the world as a whole. The disposal of this by-product is a fair subject for economic consideration. The small amount of it which many persons employ to good advantage and the great amount of it which obviously is misused naturally raise a question as to whether or not something may be done to turn some of the by-product into better channels. Someone lately expressed concern because good ways of employing the people's leisure seemingly did not keep pace with the growth of that leisure.

But the case is perhaps not as bad as it may appear to be. Diversion is an essential stimulant to the human mind. Therefore, what may appeal to a casual observer as a waste may after all have the element of great usefulness in it. The maintenance of public libraries everywhere, the growth of schools and educational institutions, and the general increase in attendance in all institutions of learning are indications that the country as a whole is putting more and more of this leisure to profitable use. (The effects of compulsory education laws and the growth of the population, while related considerations, may nevertheless be set aside for the moment as things apart.) The greatest city of the world always has difficulty in keeping up with the demand for schools.

What are most of the great public benefactions for the betterment of humanity, but provisions for making use of that leisure which our progress and prosperity have released to the people? Many of these benefactions not only provide benefits for the present generation, but in effect pass on means for profitable utilization of the leisure of others who shall follow this generation.

In the list of public benefactions for 1924 there is concrete evidence of that fact.

The utilization of our leisure creates various demands, the fulfillment of which gives commercial opportunity and employment. Our stores and shops for illustration are burdened with things which would never have been woven or wrought to sell to a people with no leisure.

We muddle through most great problems and at length work out the right answers. If we are remiss in studying out the best utilization of our time that is something that can be repaired, and anyhow there is comfort in the reflection—as we read of various lamentations and proposed reformations—that we are not behind in our worrying!

So It May Help Without Harming

By ARTHUR B. WILLIAMS
Member of Congress from Michigan

Work of Federal Trade Commission Needs Rectifying. Plan Proposed to Make it a Helpful Adviser of Business. In Stamping Out Unfair Methods Legitimate Business Suffers, Under Present Plan of Procedure. Should Have Confidence of Business.

WHAT is the matter with the Federal Trade Commission? This is a question that is uppermost in the minds of many business men. They ask very pointedly if its functions cannot be brought more nearly into line with the thought that prompted its creation in the first instance.

When President Wilson recommended the establishment of a Federal Trade Commission in a special message to Congress, January 20, 1914, he said:

> "The business men of the country desire something more than that the menace of legal process in these matters be made explicit and intelligible. They desire the advice, the definite guidance, and information which can be supplied by an administrative body, an interstate trade commission. The opinion of the country would instantly approve of such a commission. * * * It demands such a commission only as an indispensable instrument of information and publicity, as a clearing house for the facts by which both the public mind and the managers of great business undertakings should be guided, and as an instrumentality for doing justice to business where the processes of the courts or the natural forces of correction outside the courts are inadequate to adjust the remedy to the wrong in a way that will meet all the equities and circumstances of the case."

Business men, as a whole, welcomed the creation of the Federal Trade Commission. The Sherman Act passed in 1890 had been allowed to lie practically dormant for nearly a decade, during which period the average business man did not even know of its existence. Then government activity in the prosecution of monopolies was gradually brought to their attention. Practices in trade which had never been questioned were suddenly found to be illegal, and those who had participated in these transactions, not realizing that they had committed any crime, were faced with the possibility of prosecution. During the following years great uncertainty and confusion existed as to what could or could not be done under the Sherman Act. There were apparently conflicting decisions of the courts, and many questions had not been passed upon by the courts at all.

The Change in Ethics

DURING the twenty years preceding 1914 a change was taking place in the standards and ethics of all of the professions. An effort was being made to eradicate improper practices. During that period and the ten years following 1914, there has been a very great advance in the ethics of business. Competitive methods which were previously regarded as entirely proper are now looked upon as unethical by a large majority of business men. The morals of business have been on the whole greatly improved.

When the Federal Trade Commission was organized, great things were expected of it. It was believed that it would serve as a friendly adviser to business generally and that its assistance in eliminating unfair and improper trade practices would be very helpful. The better element in every kind of business was anxious to have conditions changed and to bring about the elimination of these generally recognized unfair methods of competition. They recognized the frailties of human nature and felt that in coping with certain men in every avenue of business and in securing a correction of these evils the Commission could exert a salutary and corrective influence.

While everyone must admit that the Commission has accomplished much in the field assigned to it, yet a very strong conviction exists that the Commission is not functioning as it should and that many evil consequences are actually flowing from its activities. When the Commission was first organized and for some time thereafter, it would send for the party against whom complaint had been made or give him informal notice of the nature of the complaint and solicit a discussion of the situation involved. That practice has been eliminated in later years, and now after a complaint is lodged with the Commission, an ex parte investigation is made by it and then if the Commission so decides, a formal proceeding is instituted. Immediately wide publicity is given to such proceeding, and oftentimes the business complained of is put to large expense when, as a matter of fact, there was no real basis for any such proceeding, and the action is either dismissed by the Commission itself or through appeal to the courts. Business houses which have had a long and honorable career naturally resent treatment of this kind, and, in many instances, have felt that their reputations have been greatly injured because of such unwarranted adverse publicity. They feel very naturally that the odium attaching to them because of the proceeding by the Commission is not overcome by their later exoneration. They insist, too, that they should not be prejudged, but that they should at least have an informal opportunity to present their side of the case before it is decided to institute proceedings against them.

Furthermore, there is a feeling upon the part of business interests that the decisions of the Commission represented by "cease and desist" orders are frequently not well-founded and that such decisions are more often out of harmony with the law than otherwise. This is supported by a reference to the results and the treatment accorded such decisions of the Commission when they have been taken to the courts. During the past six years, according to the 1924 report of the Commission itself, decisions of the lower Federal courts have in twelve cases been favorable to the Commission and in twenty-eight cases unfavorable to it. During the same period the Supreme Court has only upheld two decisions of the Commission, while it has overturned seven of its decisions. In other words, the Commission has exercised the high privilege of a wrong guess as to the law involved in its cease and desist orders in 70 per cent or more of the cases that have been ruled upon by the courts. Among the court decisions listed as favorable to the Commission, a considerable proportion were cases in which the order of the commission was upheld only in part. The record of the Commission in expounding the law is not a favorable one.

In many instances the decisions of the Commission have not tended to clarify the law and the rights of traders, but to make the whole subject more complicated and uncertain than before. It is not every respondent who is in a position to stand upon its rights before the courts to straighten out an erroneous decision of the Commission.

Give Business an Opportunity

THE procedure by and before the Commission for a number of years back constitutes the principal ground of criticisms by business institutions. The nature of some of these criticisms has already been pointed out. It is believed that if instead of a formal complaint, the Commission would return to its former practice of calling in the representatives of the business institution thought to be offending and giving them an opportunity to learn the viewpoint of the Commission, and, if the Commission would take advantage of this opportunity to inform itself as to the position of the respondent, doing all this in a friendly and helpful way, a great many of the formal cases now brought before the Commission would never have to be instituted. It is believed that a majority of mercantile and manufacturing concerns would be glad to promptly change their methods of doing business, if the matter were thus brought to their attention. In cases where the practice is thought to be proper by the business house and it cannot by such informal contact convince the Commission of the correctness of its views, a formal proceeding could be inaugurated by the Commission. This, however, should be done by a notice to the respondent in which should be set out a statement of the facts

and the law applicable thereto in such a way as to clearly inform the respondent of the nature of the charge. The respondent should then be given the right, if it should care to do so, to make a motion to have the proceeding dismissed, on the ground that the acts complained of, taken as true, as alleged do not constitute an unfair method of competition within the jurisdiction of the Commission. The Commission would then decide the questions presented by this motion. Thus far there should be no publicity in connection with the matter. If the decision is against the respondent, it should have the right to take the questions presented by its motion to the courts for the purpose of determining whether the facts alleged make out a case against it. If the decision of the courts should be favorable to the respondent, that would end the case. If not, the whole matter would come back to the Commission for the taking of testimony with most, if not all, the questions of law already disposed of. The respondent should have the right to discontinue the methods complained of at any time in this whole proceeding, in which event a proper order would be entered by the Commission and further expense and litigation would be stopped. With the principal questions of law thus previously decided, the respondent, as a rule, would only make a further contest in those cases where a definite issue as to the facts could be raised.

If this general plan should be adopted, it would put the Commission in the position of being a real constructive help to business and the country in harmony with the purpose of the President and Congress, when the law authorizing it was first adopted. Its work would be facilitated, the number of litigated cases would be much less, and the concerns against whom unwarranted proceedings are taken would have a short-cut method available to them for trying out in the courts the major legal issues involved. On the other hand, no serious difficulties would be imposed upon the Commission in proceeding against real offenders.

There is no criticism of the purposes of the Commission. It is an institution which should be perpetuated, but to secure perpetuation, it must have the confidence of the public and especially the hundreds of thousands of business concerns which come under its jurisdiction. Unless something is done promptly along the line indicated, the Commission's existence will be threatened. Those who are interested in continuing the Commission, and in that class can be put practically every legitimate business concern and everyone giving thought to public affairs, should unite in a constructive effort to put the work of the Commission upon a better basis and to save it not only on account of the good work it has already done under handicaps but the much greater work that it can and should do in the future.

Commission Should Be Perpetuated

THERE is another phase of the activities of the Commission not affected by the bill above referred to, which should be briefly discussed in this connection. Under Section 6 of the Trade Commission Act, wide powers are given to the Commission to carry on investigations, whether resulting from complaints presented to it or made upon its own initiative. There has been considerable irritation over the way in which these investigations are frequently carried out. In some cases apparently complaints have been made and investigations have proceeded on hearsay or suspicion, and the representatives of the Commission have pursued unwarranted tactics in attempting to examine the records and correspondence of the concern being investigated. This practice has been very severely condemned by the Supreme Court in the American Tobacco case. It said:

"Anyone who respects the spirit as well as the letter of the fourth amendment should be loath to believe that Congress intended to authorize one of its subordinate agencies to sweep all of our traditions into the fire and to direct fishing expeditions into private papers on the possibility that they may disclose evidence of crime. * * * The interruption of business, the possible revelation of trade secrets, and the expense that compliance with the commission's wholesale demand would cause are the least considerations. It is contrary to the first principles of justice to allow a search through all the respondent's records, relevant or irrelevant, in the hope that something will turn up. * * * The right of access given by the statute is to documentary evidence—not to all documents, but to such documents as are evidence. The analogies of the law do not allow the party wanting evidence to call for all documents in order to see if they do not contain it. Some ground must be shown for supposing that the documents called for do contain it. * * * Some evidence of the materiality of the papers demanded must be produced. * * * We have considered this case on the general claim of authority put forward by the commission. The argument for the government attaches some force to the investigations and proceedings upon which the commission had entered. The investigations and complaints seem to have been only on hearsay or suspicion—but even if they were induced by substantial evidence under oath the rudimentary principles of justice that we have laid down would apply."

This case was decided March 17, 1924. It is to be hoped that the Commission will pay prompt heed to the language of the court above quoted and will correct its methods of investigation accordingly. The business interests which have from time to time been subject to these unwarranted processes of investigation have a just complaint.

The Trade Commission was organized to further a modern and new conception as to the needs of the country and of business itself. Business should of course be on a strictly competitive basis. Competition, however, should not be unreasonably hampered in its aggressiveness. Monopolies, combinations in restraint of trade and unfair methods of competition should not be tolerated. Among many thousands of traders there are those who are always anxious to overstep the line and to take undue advantage. There can be no excuse for practices of this kind. The Commission has done much more than is generally known to correct these improper conditions and methods. It has a real work to do. Its hands should be upheld, but the practices of the Commission, where they have been improper, should be curtailed or changed. Congress should not allow it to drift in the wrong direction. The cause for the irritation brought about by its own incorrect methods should be done away with. We should approach our consideration of the subject, not in a spirit of hostility, but with a desire to assist the Commission to get squared away for a great future usefulness.

The Western Savings Banks Conference

THE first of three regional conferences of savings banks was held in San Francisco on February 19-20, where representatives of banks in eleven Western states discussed timely problems.

A novel way of opening the sessions was employed by Alvin P. Howard, President of the Savings Bank Division. His message was contained in a letter, such as a father would write to a son just about to enter college. In these remarks he stressed the importance of savings by telling his son, who thought the automobile industry was the largest enterprise in the country, that the twenty billion dollars in savings would buy all of the railroads and purchase the automobile industry twelve times over. In a conversational style the letter touched upon some of the major points in the wise use of money and pointedly observed that "the man who has not learned to conserve time, energy and purpose has no savings account." Mr. Howard drew the attention of the conference to the fact that the boy who has just finished high school has been left untouched by the teachers of thrift, although he is at the age where he seriously begins to think about the future.

The net income determines the loan that a savings bank may safely make on western agricultural loans, A. W. Hendrick, manager of the real estate department of the Bank of Italy of San Francisco, explained, in presenting the problems involved in making loans of this type. He reviewed the three steps—the application, the appraisal and the making of the loan—laying especial emphasis upon the need of an intelligent appraisal of irrigated lands. Owing to the fluctuations in land values, which go up and down as the earnings vary, he warned that sales value was a dangerous basis of loan valuation. "The farming industry will never be placed on its feet by temporary expediency or the passage of any emergency law," Mr. Hendrick said. "The problem of the whole country seems to be the orderly marketing of its produce and a sensible observation of the laws of supply and demand."

STRESSING the point that people will save if given some appealing objective, Paul Dinsmore, vice-president of the American Bank of Oakland, discussed the importance of home loans to savings banks. It is surprising, he said, how few of the bank's customers know of the bank's facilities other than its service as a depository. In extending loans, Mr. Dinsmore suggested the use of a deed of trust instead of a mortgage as security for the loan because of the expense of foreclosure under the mortgage. He said that his bank was a strong believer in the installment loan, as it has been found that the flat loan on residential property was seldom paid off, and

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How Canada Acquired Her State Owned Railways

By SIR HENRY WORTH THORNTON, K. B. E.
Chairman and President, Canadian National Railways

People Did Not Deliberately Embark Upon Theory of State Ownership of Railways. Financial Difficulties of Lines Made It Necessary for Government to Act. Canada Has Untold Resources to Back Up Five Billion Dollar Outside Investment.

THE people of the United States have a very large stake in Canada, in Federal, provincial and municipal securities. They have invested in our country a no less sum than $723,000,000. But this by no means represents the total investment on the part of the United States citizens and United States banking institutions in the Dominion. In mining stocks, in hydro-electric plants, in lumber, pulp, paper, and other industries, the people of the United States have invested, with Great Britain, in the sister democracy across the border $5,000,000,000, truly a stupendous sum.

What collateral has the Dominion of Canada to offer for this very large investment? First, I would put fertile soil, which produces annually a wheat crop which averages, through a period of years, at least 350,000,000 bushels. Indeed, the total value of the products of Canadian soil is represented by the sum of $1,000,500,000. And next there are the products of the forest, our pulpwood and all of those things which come from the manufacture of various products which have their source in timber of various sorts. Third, I should place our mines and great mineral resources. These mineral resources in 1924 produced annually $214,000,000, and we have not scratched the surface.

Largest Gold Producer

THE untold mineral wealth of the Dominion of Canada passes the conception of most of us who have failed to study the subject. Certainly it passes the conception of most of the citizens of the United States. Canada today is the third gold-producing country on the face of the earth, and with recent developments in northern and western Quebec, I venture to predict that in the course of from five to ten years, the production of today will be trebled. Fourth, I should put the great resources of Canadian fisheries, both by sea and from internal waters. Fifth, there are the great water power resources of Canada, a water power which has but partly been developed, and which today produces a value of $290,000,000, and which within five years, I am confident, will produce an annual value of at least $500,000,000. And then, sixth, I should put a courageous, thrifty population, living under stable conditions of government and animated by the same traditions which are characteristic of the great people of the United States. Lastly, we have an adequate transportation system, both by land and water, to bring the production of the soil, the forest and the mines and the labor of the hands of the Canadian people to that adequate and large market which lies just across the border.

We have in Canada two great railway systems, one which is operated under a private administration, and one which is the property of the people of Canada and administered by the government.

Much apprehension has existed with respect to the reasons which prompted the people of Canada to embark upon state ownership of railways, and it might be well if I should explain how that situation arose.

It has been much abused, both by its advocates and by its enemies. It has been held forth as a horrible example on the one hand and an admirable thing upon the other, and as is usually the case, both sides are wrong.

How Canada Acquired Her Railroads

THE people of Canada acquired a railway system of some 22,000 miles of lines, 100,000 miles of telegraph wires, administered by a telegraph company, an express company operating over that mileage, not because in any sense they examined the system of state ownership of railways and had become convinced that this was the proper method of administration, but simply because circumstances drove them into the position of controlling through the state a large percentage of their mileage. The Canadian National Railway System is composed of the old Grand Trunk System, the Canadian Northern Railway Company, which was built by Mackenzie and Mann; the Transcontinental Railway, which extends from Winnipeg to Quebec, and the old Intercolonial Railway, which was built as one of the reasons for inducing the maritime provinces to enter the confederation many years ago.

The Grand Trunk Railway System had embarked upon an adventure which involved building a railway from Winnipeg to the Pacific Coast and had guaranteed the securities of that enterprise. In the course of time, when, largely as a result of the war, the Grand Trunk Pacific, as it was so called, found itself in serious financial difficulties, and that in turn involved the parent company, the Grand Trunk Railway. Almost simultaneously, the Canada Northern Railway, which had been built from Winnipeg to Vancouver, was likewise in financial difficulty, and the government found it necessary to take over these two systems, not only because it had invested large sums in both of these enterprises in the form of subsidies, but also in order to prevent the cessation of transportation facilities to the people of Canada. So it was not because the people of Canada deliberately embarked upon the theory of state ownership of railways that they acquired this vast mileage but because of the situation which confronted them, and the government wisely decided that it would take over the Grand Trunk Pacific, the parent trunk company, the Canadian Northern, the old Intercolonial and the Transcontinental upon terms which were agreed upon. Having found themselves possessed of this mileage, the only intelligent thing to do was to try to operate that mileage as economically and as satisfactorily as possible in the interests of the people. That is why the people of Canada find themselves in possession of what is known as the Canadian National Railway System.

Different Problem in U. S.

THE success or the failure of that system will prove nothing whatever with respect to the same problem which may some day confront you in the United States. It will contribute nothing toward the solution of the same problem which may confront the people of any other nation on the face of the globe. We are simply doing the best we can with the circumstances which have confronted us. The custodians of large securities should be assured that the people of Canada are not wedded to the theory of the state ownership of railways, but are simply trying to work out as best they can the problem which confronts them.

So far as we have gone, we have at least demonstrated one aspect of the problem, and that is that if politics can be kept out of the administration of state-owned railways, they can render just as satisfactory a service to the public as any private corporation, but there is a large "if" there, and it is spelled with a capital "I."

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The Charge of the Right Brigade

By DALE GRAHAM

Chairman, Committee on Analysis, Missouri Bankers Association

By Which Many Banks Checked a Horde of Unprofitable Business and Made Each Losing Account Face About and Become Self-Sustaining. A Cross-Section of the Country Showing the Practice in Many Cities. Optimistic Comments of Bankers.

Small accounts to right of them,
Small accounts to left of them,
Their profits were plundered;
But out of the Valley of Loss
Charged the twelve hundred!

IT has been a long time since bankers first realized that small checking accounts not only fail to pay a profit, but actually fail to pay their own way. Yet, it has been only during the past few years that any considerable number of bankers felt that the small account problem was one that could be satisfactorily solved.

The first steps were taken in the very large cities, chiefly by those institutions that had so much big business that they were not seriously concerned whether they retained either the accounts or the good will of small depositors. But soon others, with more to lose, followed:

It did not take much analysis to convince these banks that a checking account of a hundred dollars or less—and even those under two hundred—fell far short of reimbursing them for the cost of pass books, checks, deposit slips, ledger sheets, statements, clerk hire, and other actual expenses for which they were directly responsible.

There was no question about it. The banks were right; they knew it, they could prove it, so they *charged.*

But the charge of the Right Brigade, as we may call them, was unlike that of its famous predecessor, the Light Brigade, for the charge was not at all disastrous. There were no casualties. In fact, the enemy, if the small depositors could be called such, completely capitulated.

Something was discovered that might have been known in advance—small checking account customers are mostly reasonable human beings, and are not looking for something for nothing even where the banker is concerned. Naturally, they did not know their accounts were unprofitable, for they had never been told. But when the situation was explained to them, they saw the fairness of the banks' contention and either built up their balances or willingly submitted to the charge.

The service charges ranged from fifty cents to two dollars a month, but there were very few customers who felt that the safety of their money, the convenience of the check book, and the bookkeeping services of the banks were not worth that much to them.

With this fact proved, many banks in many cities enlisted in the ranks of the Right Brigade, and joined in the charge. Today, according to the table which follows, there are over 1200 banks in nearly seventy-five important cities making service charges to place small accounts on a basis where they are at least self-sustaining, if not slightly profitable.

The net result is startling—*over four million dollars additional annual income for the banks that have adopted the charge!* Although this does not represent four million dollars profit, it means the elimination of that much loss, which is precisely the same thing.

Honor the Right Brigade!

Asking the Banks

EARLY in 1924 the Committee on Analysis of Accounts of the Missouri Bankers Association sent to two banks in every city in the United States having aggregate bank deposits of ten million dollars or over, a questionnaire requesting information as to the prevailing practice, locally, in the matter of handling small checking accounts. The questionnaire included these questions:

1. What minimum initial deposit, if any, is required?
2. Is a service charge made? If so, what amount, and under what conditions?
3. Is the service charge made if the account simply falls below the minimum (as for one or two days), or only when the average for the month is below the minimum?
4. Are service charges applied to accounts without any activity?
5. Is the service charge applied to every account, regardless of affiliations with other profitable business?
6. Is the service charge made by all banks under a Clearing House rule?
7. Was there any unfavorable newspaper comment?
8. Was any other trouble experienced?
9. What is your opinion of the service charge?

The information obtained and circulated, created such general interest that the committee again sent out letters this year to bring the information up to date.

It was found that since the 1924 survey quite a number of new cities had come into the service charge group. These included Boston, Boise, Denver, Helena, Reno, St. Joseph, Wichita, Rockford, Tampa and Kansas City. Minneapolis banks, which had a 50-cent per month charge in force, increased the amount to $1.00 per month.

The surprising feature of the inquiry is the fact that not a single city reported any difficulty in the way of adverse criticism or unfavorable newspaper comment. The service charge is just, and is readily admitted to be so whenever the underlying facts are made plain.

The bankers' viewpoint may be indicated by the following responses:

QUESTION: Is the service charge made if the account simply falls below the minimum (as for one or two days) or, if the average for the month is below the minimum? ANSWERS: About evenly divided, with majority probably favoring charging when average balance falls below minimum.

QUESTION: Are service charges applied to accounts without any activity at all? ANSWERS: Beaumont, Tex.; Knoxville, Tenn.; La Crosse, Wis.; Lincoln, Neb.; New York City; Oakland, Cal.; Philadelphia, Pa.; San Bernardino, Cal.; Spokane, Wash.; Lincoln, Neb., YES. Long Beach, Cal.; Minneapolis, Minn.; Sacramento, Cal.; St. Paul, Minn; San Diego, Cal.; Sioux City, Iowa; Toledo, Ohio, Yes, in some banks. All other cities, No.

QUESTION: Does the amount of the charge in individual cases vary in proportion to activity? ANSWERS: See tabulation of cities.

QUESTION: Is the charge applied to every account, regardless of collateral business of affiliations with other profitable business? ANSWERS: Boston; Davenport, Iowa; Kalamazoo, Mich.; La Crosse, Wis.; Lansing, Mich.; New Orleans, La.; Oakland, Cal.; Richmond, Va.; Rock Island, Ill., Yes. Atlanta, Ga.; Minneapolis, Minn.; Portland, Ore.; San Barnardino, Cal.; San Diego, Cal.; Seattle, Wash.; Spokane, Wash., Yes, in some banks. All other cities, No.

QUESTION: Is the service charge made by all banks under a Clearing House rule? ANSWERS: Atlanta, Boston, Columbus, Ohio, Davenport, Denver, Des Moines, El Paso, Hartford, Kalamazoo, Kansas City, Knoxville, La Crosse, Lansing, Long Beach, Los Angeles, Minneapolis, Moline, New Orleans, Oakland, Ogden, Omaha, Orange, N. J., Peoria, Phoenix, Portland, Richmond, Rock Island, Ill., St. Joseph, Sacramento, Salt Lake City, San Bernardino, San Francisco, San Jose, Seattle, Sioux City, Sioux Falls, Spokane, Syracuse, Tacoma, Toledo, Wichita, Yes. Others, No.

QUESTION: Was there any unfavorable newspaper comment? ANSWERS: All, No.

QUESTION: Was any other trouble experienced? The answers of all banks responding were that no trouble had been experienced.

The table which follows at the bottom of page 594 is the revised survey for 1925 and shows the cities that either require minimum initial deposits or assess a service charge, or both. It is worth serious study by any banker whose profits are being lessened every year by the small checking account.

Revised Compilation of Reports

CITIES which make no requirements and assess no service charges are omitted. Their absence implies a negative report. While the questionnaire was sent to but two banks in a city, the tabulation attempts as

(*Continued on page* 594)

Elimination of National Waste

By EDWARD EYRE HUNT
Assistant to the Secretary of Commerce

Avoiding the Extravagance of Booms, Making Operations of Industries Less Seasonal, Cutting Down Variety of Products and Reducing the Number of Links in Distribution Advocated by Hoover's Department to Stabilize Our Business Structure.

THROUGH the elimination of waste, it is possible that American industry and commerce in the long run will be transformed. Due to the initiative of Secretary Herbert Hoover, the Department of Commerce has put into motion a number* of activities to attain this goal. Two years ago the program for eliminating waste in our industries was hardly more than a theory; but today it is possible to speak of results because actual progress has been made in several lines. All of the activities, grouped under the head of elimination of national waste, are intended to stabilize the business structure both by the encouragement of better management and by the development of voluntary cooperative efforts of the business community as a whole.

Some of these vast national wastes have been enumerated by the Secretary as follows:

Waste from the speculation, relaxation of effort and extravagance of booms with the infinite waste from unemployment and bankruptcy which comes with the inevitable slump.
Wastes from excessive seasonal character of production and distribution.
Waste caused through lack of information as to national stocks, of production and consumption with its attendant risk and speculation.
Waste from lack of standards of quality and grades.
Waste from unnecessary multiplication of terms, sizes, varieties.
Waste from the lack of uniformity of business practices in terms and documents, with resultant misunderstandings, frauds and disputes.
Waste due to deterioration of commodities.
Waste due to inadequate transportation and terminals to inefficient loading and shipping and unnecessary haulage.
Waste due to disorderly marketing, particularly of perishables, with its attendant gluts and famines.
Waste due to many links in the distribution chain and too many chains in the system.
Waste due to bad credits.
Waste due to destructive competition of people who are fast exhausting their capital through little understanding of the fundamentals of business in which they are engaged.
Waste due to enormous expenditure of effort and money in advertising and sales promotion effort, without adequate basic information on which to base sales promotion.
Waste due to unfair practices of a small minority.
A multitude of wastes in use of materials, in unnecessary fire destruction, in traffic accidents and many other directions.

Not "Small Change"

THESE wastes, Secretary Hoover declares, are not the "small change" of industry and commerce; the elimination of any one of them means millions of dollars of annual savings. The elimination of economic waste is a social and financial asset. It has no liabilities.

A few examples will indicate what can be done, and these examples are typical, not exceptional. Some time ago a manufacturer of flour in Minnesota appealed to the department for assistance. He was shipping flour all over the country with but little resulting success. The fact that he was shipping to distant points and paying heavy freight charges made it impossible for him to compete with millers who were nearer his markets. After analysis the department pointed out to the miller that a large market for his product existed within 250 miles of his plant. This market was successfully tested with the result that the miller has been able to sell his flour near home at a considerable profit.

Recently a large chain store organization came to the department to find out what cities might serve as new points of contact. Upon examination it was found that the reason for establishing stores in the cities already served by this organization was entirely a matter of real estate. If an agent found a good location, a store was established with no regard to the question as to whether or not the population could support the store.

Waste in packing was shown by an example which recently came to the attention of the department where a manufacturer of wooden articles was shipping them in large boxes of heavy lumber of the best quality. The boxes weighed one-third or more of the total weight of the shipments. Inefficient packing means a loss of about $11,000,000 annually to shippers, and a further loss of $5,000,000 to the railroads due to repairing faulty containers.

The Larger Game

BUT the larger campaign of waste elimination has been developed in another field. The conspicuous success of the Secretary of Commerce in checking wastes can probably best be shown by the work of the President's Conference on Unemployment, which met in Washington under the chairmanship of Secretary Hoover in September, 1921. The conference was called to deal with one of our greatest wastes, namely, a general slackening of production and resulting unemployment. Four and one-half million persons were out of work when the conference began. But the successful relief measures which were developed were by no means the most important result of this conference. A group of eminent business men, labor leaders, economists and engineers, under the leadership of Owen D. Young, made a careful investigation of the problem of business cycles and unemployment and reported in April, 1923. They declared that every business boom is followed by a slump, and that the only way to get rid of slumps is to anticipate and neutralize incipient business booms. The appearance of this report curbed the beginning of a dangerous boom in the spring of that year —a result of incalculable benefit to our economic structure.

The report laid special emphasis on better control of credit by the Federal Reserve System and individual bankers, so as to prevent speculation and over-expansion; secondly, it pointed to the need of the collection and dissemination of more adequate information as to economic tendencies by means of statistics of production, stocks, consumption of commodities and employment, so as to enable business generally to anticipate the approach of periods of danger; and thirdly, it advocated the deferment of public construction work during periods of general activity in private construction, so as to release such work whenever possible in periods when the construction industries are not fully occupied.

Another investigation of economic waste made by a committee of the President's Conference on Unemployment was the study of seasonal operation in the construction industries. This report, published in July, 1924, shows that custom and not climate is mainly responsible for the seasonal ups and downs of building, and that these vices are largely unnecessary and can be eliminated. Elimination of the wastes from seasonal inactivity would greatly strengthen the entire business structure, for construction is the balance wheel of American industry. The value of yearly construction in the United States is more than $5,000,000,000. If building falls off, there is slackening in many other lines of industry, resulting in unemployment, decreased purchasing power of employees and further depression.

Eliminating Excess Varieties

STRIKING progress has been made in waste elimination of another sort through the Division of Simplified Practice established in the Department of Commerce in 1921. In many lines of manufacture there is a large and wholly unnecessary diversification of sizes and types of products. To eliminate excess variety it is necessary to ascertain the facts of present practice, to list all types, styles, sizes and variation of articles produced in the last few years, with figures to show the relative demand for each. The Department of Commerce then acts as a clearing house for this information, and in cooperation with producers, distributors and consumers, it supports recommendations mutually agreed upon and publishes them as a standard practice. Thirty-five of these recommendations are now in effect, and

(*Continued on page 573*)

Opinions of the General Counsel

By THOMAS B. PATON

Stopping Payment of Certified Check

A New Jersey bank refers to a recent decision by a New Jersey court giving a depositor the right to stop payment of a check which the bank has certified for him, where the depositor has been defrauded by the payee of the check. The bank asks whether the depositor can be required to indemnify the bank should his claim of fraud be unfounded.

Opinion.—Following a dicta in an earlier case to the effect that where a check is certified for the drawer as distinguished from one certified for the payee or holder, the drawer is not discharged and in a suit by the payee both bank and drawer can set up the defense of fraud or failure of consideration to the drawer, the New Jersey Court of Errors and Appeals has recently held that a depositor has the right, in case of a check certified for him and obtained from him by fraud, to require the bank to refuse payment and if sued by the payee to interpose any defense that the drawer could have made. In the opinion of counsel of ability where the drawer stops payment because of fraud, the bank has no right to require indemnity which leaves it in a dangerous situation. In our opinion, however, the bank would be entitled to protect itself, not only by interpleading drawer and payee, but would be entitled to demand indemnity as a prerequisite to stopping payment, for a court of equity would not require the bank to assume the risk that the drawer's claim of fraud is well founded. A bill is now pending before the New Jersey Legislature to place checks certified for the maker in the same category as those certified for the holder. This proposed legislation if passed will place the law of New Jersey in harmony with the decisions in other states to the effect that after a check has been certified whether for holder or for drawer, it is beyond the power of the drawer to stop payment.. The New Jersey decision to the contrary in case of certification for the drawer, is apparently based on an erroneous theory. While the drawer has a right to stop payment of an uncertified check which is a mere order upon and authority to the bank to pay, as soon as the check is certified, whether for drawer or for holder, the character of the obligation changes. It is no longer an order on the bank to pay, but has been transformed by acceptance into an obligation of the bank as primary debtor to pay the payee upon which the drawer is only secondarily liable, the same as an indorser of a certificate of deposit, who has no right to stop payment because of fraud perpetrated by his indorsee.

From New Jersey:—A recent decision by the New Jersey Court of Errors and Appeals is to the effect that where a check is certified for a depositor and is procured from him by fraud, the depositor has the right to stop payment. In such case, has the bank a right to require indemnity? If not, it would seem to be placed between two fires.

The decision referred to is Sutter v. Security Trust Co. (1924) 126 Atl. 425. It holds that a depositor has the right in case of a check certified for him and obtained from him by fraud (as distinguished from a check certified for the holder) to require the bank to refuse payment to the payee or to an indorsee of the payee not a holder in due course and that upon suit by the payee the bank can interpose any defense that the drawer could have made against the payee.

Before discussing the question of the bank's right to indemnity, it will be useful to trace the history of the judicial rule, peculiar to that state, which has culminated in this latest decision.

In 1909 the case of Times Square Automobile Co. v. Rutherford National Bank, 73 Atl. 479 came before the Court of Errors and Appeals of New Jersey. It was a case where a payee, and not the drawer, had had a check certified and the court held, in line with decisions in other states, that the bank was liable to the payee and could not interpose fraud of the payee upon the drawer in defense. The court in so deciding, also declared a dicta that in case of a check certified for the drawer, as distinguished from one certified for the payee or holder, such certification did not discharge the drawer and in a suit by the payee both bank and drawer could set up the defense of fraud or failure of consideration to the drawer. This dicta was later recognized as having the force of law by the Court of Chancery in New Jersey in Sutter v. Security Trust Co., 122 Atl. 381, which was a suit by the drawer against the drawee because of having paid a check certified for the drawer after the latter had stopped payment. The court held that such payment by the bank to an alleged fraudulent payee after the drawer had requested that payment be stopped, denied to the drawer the privilege of asserting his defense to the payment; but notwithstanding this, the drawer could recover from the bank only for losses in fact sustained by such payment and must affirmatively prove fraud of the payee, which in the instant case he had failed to do. The decision by the New Jersey Court of Errors and Appeals, as to which you inquire, is in affirmance of the judgment of the Court of Chancery, and, as shown above, positively declares the drawer's right to stop payment of a check certified for him in case of fraud.

The question arises under this latest decision in the Sutter case whether the bank has a right to require indemnity from the drawer as a prerequisite to obeying his order to stop payment? If not, the bank, as you say, is placed between two fires. It cannot know the circumstances of each particular case. If it refuses to comply and pays the check and the depositor proves that the payee has defrauded him, it must pay again to its depositor; on the other hand, if it obeys the stop order and refuses to pay and the payee sues the bank and proves that he is a bona fide holder for value, the bank must suffer the trouble and expense of defending an unsuccessful lawsuit.

Counsel for the New Jersey Bankers' Association has given an opinion to the Secretary of the Association in which, after referring to the dangerous position in which the latest Sutter decision leaves the bank, he says: "If the check was obtained under circumstances that would justify the drawer in demanding stop payment, the bank has no right to request indemnity. The only present remedy that occurs to me by which a bank can protect itself is to refuse to certify checks at the request of the drawer, but in lieu thereof to issue to him the bank's check.

"I suggest that it would be desirable for the Bankers' Association of the State to secure legislation at the coming session of the legislature, which will provide that the drawer of a check which has been certified cannot stop payment thereon without first indemnifying the bank to its satisfaction in double the amount of the certified check."

The Secretary of the New Jersey Bankers' Association has advised General Counsel that a bill has been introduced in the New Jersey Legislature "to place checks certified for the maker in the same category as those certified for the holder."

A recent opinion was issued from the office of General Counsel suggesting that a check certified for the drawer could be stamped "not subject to stop payment."

This situation, as thus far judicially developed, is peculiar to New Jersey, except that in a Missouri case (Bathgate v. Exchange Bank (1918) 205 S. W. 875) the court followed the dicta of the original Times Square case and held that the bank when sued by the payee of a stopped check, was entitled to interplead drawer and payee. It would seem that this particular remedy would be available to the certifying bank in New Jersey. The depositor for whom the bank has certified the check claims he has been defrauded and orders payment stopped. The payee on the other hand contends he is a bona fide holder for value and demands payment. In this situation of conflicting claims, we think the bank is entitled to interplead the parties.

But the question remains unanswered, is the bank entitled to indemnity as a prerequisite to stopping payment at the drawer's request of a check certified for him? Under the conception of the law in the original Times Square case, as we take it, while the bank could interpose an equity of the drawer in defense to payment of a check certified for him, it was not obligatory, but optional with the bank to refuse payment and interpose such defense in which event, without question, the bank would be entitled to indemnity from the depositor as a condition of complying with his request. But under the latest decision in the Sutter case, the depositor has a positive right to

require the bank to refuse payment of a check certified by him, where he has been defrauded by the payee. The question of the right to demand indemnity in such case is somewhat doubtful. We are inclined to the view, nevertheless, that the bank is entitled to demand indemnity. The check may be in the hands of the payee, or an indorsee of the payee. The payee may be a bona fide holder for value or the indorsee may be a holder in due course, or neither the payee nor indorsee may be entitled to enforce payment. The bank does not know. The drawer by the exercise of his right to stop payment thereby places the bank in a position of jeopardy and may entail expense and loss upon the bank if the holder of the check is shown ultimately to be entitled to payment. Under such circumstances, it would seem that a court of equity would decree that the bank is entitled to indemnity as a condition precedent. Where a depositor loses his certificate of deposit, he has a right to require payment by the bank, but a court of equity in view of the possibility that the certificate may be negotiated, will require the depositor to give a bond of indemnity before receiving payment. Divine v. Unaka Nat. Bank, 140 S. W. (Tenn.) 747. For a full statement of the law to this effect, see Digest of Legal Opinions of Thomas B. Paton, 1921, No. 2161 et. seq. The underlying principle would seem to be that where one has a right to require another to do, or refrain from doing, a certain act, but the exercise of such right may involve such other person, without any fault of his own, in a loss which if occurring, should properly be borne by the person exercising the right, a court of equity will require the giving of indemnity as a condition of the exercise of such right.

We are inclined to the opinion that in the case under consideration, a court of equity would protect the certifying bank.

We have stated above that a bill is pending before the New Jersey Legislature to place checks certified for the maker in the same category as those certified for the holder. This proposed legislation, if passed, will place the law of New Jersey in harmony with the judicial law of all other states, except Missouri, to the effect that after a check has been certified whether for holder or for drawer, it is beyond the power of the drawer to stop payment. We respectfully submit that the New Jersey decision to the effect that the drawer has a right to stop payment of a check certified for him where he has been defrauded by the payee, is based on an erroneous theory. Under the Negotiable Instruments Act, a check does not operate as an assignment but is a mere order upon and authority to the bank to pay which is subject to revocation. Having such character, the drawer has a right to revoke his order because the bank is not liable to the holder of an unaccepted check, but as soon as the check is certified, whether for drawer or for holder, the character of the obligation changes. It is no longer an order on the bank to pay; the order has been transformed by acceptance into an obligation of the bank as primary debtor to pay the payee upon which the drawer is only secondarily liable, the same as an indorser of a certificate of deposit. This being the character of the instrument, it would seem that under a true interpretation of the law, the drawer has no more right to stop payment of a check even though certified for him, than he would have if he were the indorser of a certificate of deposit or cashier's check issued to and transferred by him; in other words he would have no such right.

Trust Powers of National Banks

THE New York statute permits an executor or trustee to invest trust funds in shares or parts of bonds and mortgages on unencumbered real estate worth 50% more than the amount loaned provided the bonds and mortgages are held for the benefit of the fiduciary by a trust company or title guaranty corporation organized under New York law. The question is asked whether, if a national bank was appointed trustee, the bonds would be a legal investment for trust funds? Opinion: *Under decisions of the United States Supreme Court wherever a state provides that a competing trust company may act as trustee even though other corporations including national banks are excluded, a national bank having permit is qualified to act in all trust capacities in which the competing trust company may act and can be so appointed by a court or individual. The case in question falls within the principle of these decisions and if a national bank is made trustee, the court will probably hold that an executor can lawfully invest in such bonds under the Decedent Estate Law.*

From New York: The Decedent Estate Law of New York, Section 111, permits an executor, administrator or trustee to invest trust funds in shares or parts of bonds and mortgages on unencumbered real property worth 50 per cent more than the amount loaned thereon provided they are held for the benefit of the fiduciary "by a trust company or title-guaranty corporation organized under the laws of this state." The same wording appears in Section 21 of the Personal Property Law. If a national bank having special permit of the Federal Reserve Board to act as trustee is appointed trustee of such a bond issue, would the bonds be deemed a legal investment for trust funds under the law of New York?

There is no question, in view of the decisions of the Supreme Court in First Nat. Bank v. Fellows, 244 U. S. 416 and Burnes' Nat. Bank v. Duncan, 265 U. S. 17, that wherever a state provides that a competing trust company may act as trustee, even though it may be in terms which exclude other corporations, including national banks, a national bank having permit is qualified to act in all trust capacities in which the competing trust company may act and can be so appointed by court or individual.

In the situation presented by your letter, the state does not say in so many words that only a competing trust company may act as trustee, but it says that bonds in parts secured by mortgage, shall only be legal investment for an executor if a competing trust company or a title-guaranty corporation in New York holds the security.

After some consideration, I am inclined to think this falls within the principle of the Supreme Court decisions which hold that where a state designates a competing trust company to be a trustee, it is beyond its power to exclude a national bank from so acting; in view of the purpose of Congress to place national banks on a par with competing trust companies in the exercise of trust powers.

The question which I have suggested to myself is whether a state can discriminate between legal trustees? By amendment of the New York Banking Law April 9, 1919 (Section 10, subdivision 8), state banks were given the same trust powers as trust companies but the Decedent Estate Law excludes all legal trustees (i. e., individuals, state banks and national banks) except trust companies and title guaranty corporations. Can the New York Legislature say that bonds are legal investments if the trustee is a trust company but not legal investments if the trustee is a state or national bank? Or could it go further and discriminate between trust companies themselves, by saying that no bonds are legal investments unless secured by mortgage to a trust company of $5,000,000 capital or over.

Whatever the state can do as between its own institutions, I have formed the opinion, in view of the decisions of the United States Supreme Court, that where the state provides that bonds are legal investments if secured by mortgage to trust companies or title guaranty companies, Congress has written into the state law an implied provision adding national banks. In other words, I think if a national bank was made trustee, an executor could lawfully invest in the bonds under the Decedent Estate Law.

Were it not for the Supreme Court decisions there might be more question upon the point, but in the light of these decisions—especially the language in the Burnes National Bank case—I think the above opinion is correct. I have not failed to consider the decision of the Supreme Court of Massachusetts in petition of Commonwealth-Atlantic National Bank, 144 N. E. 443, in which a testator named a trust company as his executor which thereafter became converted into a national bank and still later effected a consolidation with another national bank. The testator having died in the meantime, the national bank sought appointment as executor, which was denied. The Supreme Court of Massachusetts held that the national bank was not the executor named by the testator and that the designation of the trust company as executor by the testator did not confer any property right which devolved upon the national bank. The Supreme Court of the United States denied a petition for a writ of certiorari on Nov. 5, 1924, but handed down no opinion.

This decision does not involve the principle that where a competing trust company can be trustee a national bank can be; it is simply to the effect that a national bank was not the executor named because it was the successor by conversion and consolidation of a prior corporation which had been named.

The specific point of your inquiry has not, as yet, been passed upon by any Court and, of course, until there is a positive decision, executors and trustees will naturally hesitate about making such investments.

Recent Decisions

DIGESTED BY THOMAS B. PATON, JR.

Assistant General Counsel

BANK NEED NOT APPLY DEPOSIT OF INDORSER TO PAYMENT OF NOTE BEFORE SUING PRIOR PARTIES—TEXAS.

A BANK discounted a note for its customer and before the due date the maker and indorser prior to the customer informed the bank that they had a defense against the bank's customer on the note. The bank disregarded such notice and brought suit against the maker and prior indorsers, although their customer, who had indorsed the note to the bank, had a deposit in the bank against which the note might have been charged if the bank had elected to do so.

The only question before the court is as to whether the bank, a bona fide holder, was obliged to charge the account of their depositor, who was their immediately prior indorser, or could elect to proceed against the makers and prior indorsers. The court held that the bank could elect to sue the makers and prior indorsers, and was not bound to look to their depositor who had funds with them. Landers Co. v. Lincoln-Alliance Bank, 298 Fed. 79. (Tex. 4-24.)

COLLECTIONS—FORWARDING CHECK DIRECT TO PAYOR—ACCEPTING DRAWEE'S DRAFT IN PAYMENT—MONTANA.

ONE Jensen, plaintiff, sold meat to defendant meat company, and accepted check on an out of town bank in payment thereof. Jensen deposited the check in his local bank, which forwarded it to the Federal Reserve bank which forwarded it to the drawee bank, the latter remitting for the check by its own draft on a correspondent, after stamping the check "Paid" and charging the account of the meat company. Before the draft was presented to the correspondent for payment the drawer thereof had failed, so payment was refused.

After the failure of the bank on which the first check was drawn, someone therein took the "Paid" check out of the pouch containing cancelled checks of the meat company, credited the amount thereof to the meat company (to offset the former charge for the same item) and returned it to Jensen through the channel by which it had come from him, and upon obtaining the check charged back to him, Jensen sued the meat company for the amount thereof.

Jensen was not allowed to recover, for while the acceptance of the check in payment for the meat in the first instance did not constitute payment so as to preclude suit on the check, nevertheless Jensen was precluded from recovery by accepting, through his agents for collection, something other than money in payment of the check given by the meat company to him. The meat company was no longer liable on the check, despite the unwarranted attempt by the insolvent bank to restore his account in that amount, and the return of the "Paid" check voucher to Jensen. Because so far as the meat company was concerned, the check was paid, for it was presented for payment to the bank he drew on, where he had sufficient funds to meet it, and while the bank was paying out actual money on checks when the one presenting demanded money. Jensen through his duly authorized agents presented the check for payment, and got payment by a draft acceptable to the agent, and Jensen is bound by such payment, which completely closed the transaction on the part of the meat company, since its check was paid. Jensen v. Laurel Meat Co., 230 Pac. 1081. (Mont. 11-24.)

Note: There is dictum in this case to the effect that the local bank in which Jensen deposited his check for collection would not be liable to him on the loss, because under Mont. Rev. Codes (1921) §6109, that Bank used the method authorized by law in sending the check for collection; but that the Federal Reserve bank would be directly liable to Jensen, for it was the one which accepted the insolvent bank's draft on its correspondent in payment of the meat company's check.

For a recommended form of collection agreement protecting all banks, whether or not they clear through the Federal Reserve Bank. See AMERICAN BANKERS ASSOCIATION JOURNAL of January, 1925, p. 458, which has been reprinted in a number of publications by the various State Bankers Associations.

SAFE DEPOSIT COMPANY—BOND FOUND ON FLOOR IN CUSTOMER'S ROOM, HELD TO BE IN CUSTODY OF DEPOSIT COMPANY —KENTUCKY.

PLAINTIFF found a $1000 bond on the floor in a room of a safe deposit vault, where only the customers of the company who rented boxes were allowed to enter. The finder notified an officer of the defendant trust company operating the vault, and entered into an agreement, whereby plaintiff finder agreed to leave the bond with defendant trust company for six months, and if the rightful owner was not located within that time, defendant agreed to return the bond to the finder.

At the end of the six months, the owner not having been found, the finder demanded the return of the bond to himself. The trust company refused to do this, and in this suit for recovery the trust company set forth the facts that only customers renting boxes were allowed to enter the room where the bond had been found, and after one had signed their name and given the number of their box.

The court held in favor of the trust company, on the theory that it was the custodian of the bond, and as such custodian it represented its customer in such a fiduciary relation that its possession might be deemed possession by the owner. For the case was different from where one found goods in a public place, where the general public was invited to frequent and under the conditions as here found, goods, even on the floor, were bound to come to the notice of the vault officials sooner or later, and the trust company was bound by obligation to its patron to retain possession of the bond as his representative, despite its promise to return it to the finder in case it was not returned to the owner within a certain time.

The court pointed out that possibility of final return to the owner was greater if the bond remained in the hands of the trust company than it was if the individual finder had it. Silcott v. Louisville Trust Co., 265 S. W. 612. (Ky. 10-24.)

CHECK IS SUBJECT TO GARNISHMENT, ALTHOUGH UNINDORSED—COLORADO.

DEFENDANT herein, a bank, was named as garnishee in another action where the payee of a certain check was defendant. The check in question was in the possession of the bank, having been left there by a third party to be delivered to the payee, who had never seen or indorsed the check. The bank refused to surrender the check to the garnishing officer, sent it to the payee who cashed it, and now maintains that it was within its right to do this, on the grounds that a check is not subject to garnishment. (The garnishee bank was also drawee of the check, but this fact has nothing to do with the outcome.)

In the absence of an authorizing statute, checks are not property within the meaning of garnishment law, but by statute [Colo. Comp. Laws (1921) §6103] "debts, credits and other things in action belonging to defendant or defendants incapable of manual seizure, or personal property capable of manual seizure," are property subject to garnishment.

Under the statute the bank was held liable to plaintiff for the amount of the check. Great W. Finance Co. v. Hamilton Nat. Bank, 230 Pac. 115 (Colo. 10-24.)

SPECIAL DEPOSIT NOT SUBJECT TO GARNISHMENT—SAME RULE, ALTHOUGH MADE UP OF TENTATIVE CREDIT ON UNCOLLECTED ITEMS—IOWA.

PLAINTIFF bank sought to attach a deposit made in a second bank by defendant. When the deposit was made, the depositor gave the depository bank a list of nineteen checks which he was issuing, which totaled the equivalent of the deposit, and instructed the depository bank to use the deposit to pay these specific checks. The deposit was entered under the name "E. C. Propp, special account," but the official accepting it told the depositor that no payment therefrom would be made before the deposited items were cleared through and actual funds were received on them.

Subsequent to the deposit and before the funds were received on the items, the writ

of garnishment was served, and the plaintiff bank contends that since the credit on the books of the depository bank did not become absolute when the depositor sought to make the special deposit, but became absolute after the service of the writ, the funds are subject to the garnishment.

It was held, however, that, although the bank "would not pay the checks it was intended to provide for until the money was received, * * * that was merely for the protection of the bank, and did not, we think, affect the character of the transaction so far as Propp was concerned. He had * * * done all that he could do, and all that he ever did do, to create a special deposit for a certain designated purpose. The rights of himself and the holders of the checks, to cover which the deposit was made, were fixed." Therefore, the deposit was not subject to garnishment.—First Nat. Bank v. Propp, 200 N. W., 428. (Iowa 10-24.).

Demand for Repayment of Deposit Necessary to Start Running of Statute of Limitations—Unwise to Destroy Certain Bank Records—Vermont.

A DEPOSIT in the sum of $2200 in a national bank lay dormant for 32 years, at the end of which time the incompetent depositor by her guardian demanded its repayment, presenting the deposit book. The bank refused to repay, stating that it had no books showing its indebtedness to the depositor. The bank set forth the facts that more than 20 years after the date of the alleged deposit, and upon advice of counsel, when it removed to new quarters, it destroyed its old records, and that the laches of the depositor in failing to reclaim the deposit for so many years should preclude recovery in this case.

In a statement of the law this court said on appeal that a demand on the bank for the repayment of the deposit was necessary for a cause of action for its return, and such demand was contemplated as a part of the contract. Consequently until there was a demand the statute of limitations did not begin to run. Helman v. Randolph Nat. Bank, 126 Atl. 500 (Vt. 10-24.)

Married Woman as Surety Not Liable on Note—Renewing Note During Widowhood Binding—Kentucky.

A YOUNG man became indebted to plaintiff bank in the sum of several thousand dollars, and upon being pressed for a surety obtained the signature of his mother on a note while her husband was still living. When the notes became due the mother was a widow, and to obtain an extension on the loan, new notes were executed, the mother becoming surety thereon.

The surety is here being sued, and she sets up the defense of no consideration, for she was moved to sign the renewals because she had thought herself liable on the old notes; and since she was in no way liable on her old indorsement being under the disability of coverture, she got no advantage amounting to a consideration, for signing the last time.

The court, stating that the mother was in no way liable on the note signed when she was married, held that she was nevertheless liable on this last note, because she entered into it after the disability was removed. For the bank put off the time the debt was due from the son, therein granting an extension evidenced by the new note which was a consideration for the mother becoming surety. Although there was no entirely new debt created subsequent to discoverture, still there was a forbearance to sue on the first maturing notes on which the son was liable, and even if the mother had not attempted to be surety before, she could now bind herself for the valid extension of the son's debt. Farmers' Bank v. Williams, 265 S. W. 771. (Ky. 10-24.)

Purchaser of Installment Note With Overdue Installment Not Bona Fide Holder—Idaho.

FOR the purchase of an automobile a note was given payable $90 monthly. The note was sold to plaintiff when the first installment was overdue and unpaid, and since the maker had a defense to the note if it was in the hands of anyone other than a bona fide holder, the question comes up as to whether an overdue installment puts the buyer on notice that the entire note has infirmities, or that just the installment in question is one which the maker has a defense to. The rule was held to be that "if an installment of a note is overdue at the time it is transferred, the purchaser takes the whole note as overdue paper, and is not a holder in due course." Therefore, he could not recover as a bona fide holder under the facts in this case. General Motors Acceptance Corp. v. Talbott, 230 Pac. 30 (Idaho, 10-24.)

Bona Fide Holder of a Note, Although Bought at Unusually Big Discount, May Hold Maker Liable—Alabama.

PLAINTIFF appellee gave a note for $646 to a builder who was to make certain repairs on plaintiff's house. Forthwith, and before such repairs were made, the builder induced defendant to purchase the note for $546, $200 being then paid, with the other to be paid at intervals as needed by the builder.

The builder absconded after getting $61 more, and plaintiff sought by this action in the lower court to compel defendant to surrender the note, on the grounds that it was not purchased in good faith; that the fact that the builder was willing to accept $100 less than the face value of the note was sufficient to put defendant on notice of the fraudulent intent on the part of the builder, payee of the note. But this court on appeal held that while the fact that a $100 discount had been made on a note of this size was evidence to be considered in determining whether the note was bought in good faith, nevertheless this was not of itself sufficient to put a man on notice. For even if circumstances were present which should arouse the suspicions of a prudent and discerning man, but were disregarded, the burden would be on the maker of the note to show actual bad faith on the part of the purchaser. Such was not shown here, and the court held that under §54 of the Uniform Negotiable Instruments Act the purchaser of the note could hold the parties thereon liable for the amount paid for the note up to the time of actual notice of the fraud. Spires v. Jones, 101 So. 753. (Ala. 11-24.)

Bank's Lien on Own Stock—Restricted Transfer Notice—Statute Prohibiting Own Collateral.

A STOCKHOLDER of a bank was indebted to it, the debt being evidenced by note. While so indebted he transferred his stock certificate to a third party as security for a debt, without the consent of the directors of the bank.

The bank claims a lien on the stock to cover the indebtedness to the bank, on the grounds that on each certificate of stock there was the following provision: "No transfer shall be made by any stockholder liable to this bank as principal debtor or otherwise, without the consent of the Board of Directors." However, there is a statute [Miss. Code. (1917), §3606] to the effect that "No * * * bank shall accept as collateral, or be the purchaser of its own capital stock, except in cases where the taking of such collateral or such purchase, shall be necessary to prevent loss upon a debt previously contracted in good faith. * * *" And the court held the provision on the stock certificate was nullified by the statute. Bank of Pontotac v. Robinson, 101 So. 561. (Miss. 10-24.)

Bank Drawing Draft in Its Own Favor and Indorsing Forged Bills of Lading Therewith for Customer Is Liable for Loss Occasioned Thereby—Oklahoma.

A CUSTOMER of the defendant bank presented in usual course of business certain forged bills of lading for 305 bales of cotton, and defendant telegraphed the consignee (plaintiff herein), named the consignor and asked plaintiff if he would honor a draft for $50 per bale. The consignee answered he would if the cotton was of good grade. Thereupon the bank drew a draft in its own name for the amount, the draft reciting "Bill lading attached for 305 B/C," and indorsed the bill of lading to the drawee. The draft was paid, and upon finding that the bill of lading was forged and the forger had absconded, the plaintiff brings this suit to compel the bank to bear the loss.

The bank sets up the defense that it was merely a collecting agent for its depositor, for whom it forwarded the bill of lading and draft and that it entered a credit in favor of the customer, who was allowed to draw out the sum when funds came through; and since it was acting in behalf of its depositor as a disclosed principal, it was not liable for the proceeds of the draft after they were turned over to him.

The facts disclosed at the trial showed that the draft was drawn and indorsed by the bank, and the bill of lading was indorsed by the bank also. That the draft as drawn purported on its face to be an obligation of the bank, with the bill of lading an accompanying instrument of the bank on it also, quoting from a former decision the court said: "It is equally clear that the liability of defendants as drawers of a negotiable instrument must be determined from the instrument itself." This rule was applied here, and the bank had to bear the loss. First Nat. Bank v. Kempner, 229 Pac. 840. (Okla. 10-24.)

Eliminating Waste

(Continued from page 568)

fifty more are scheduled for completion in the year 1925.

Among the striking accomplishments already listed are the reduction of varieties of vitrified paving brick from 66 to 5; metal lath, from 125 to 24; hollow building tile, from 36 to 19; smooth face brick, from 36 to 1; files and rasps, from 1351 to 496; milk bottles, from 49 to 9; milk bottle caps, 29 to 1.

The value of simplification is suggested by the following excerpts from a letter to the department from a large manufacturer of brick. He is unable to estimate the actual savings which have resulted from the reduction in the number of varieties, but says: "Suppose we started to make another size. In all probability we would have to carry a million more brick in stock as a minimum for each plant. In fact, a million is a small estimate.

"For three plants it would mean an investment of not less than $50,000 in finished brick, which at 6 per cent would cost $3,000 a year interest. Add the investment in stock-sheds made necessary, additional dies, etc., and, more than all, the interference with production. There is no question in our minds that the addition of another size would mean an increase of between $5,000 and $10,000 a year to our costs, and that the last figure is nearer right."

Cutting Wire Prices

ANOTHER letter shows the condition in the woven wire fence industry. A large steel company reports: "Prices on woven wire fence to the trade have been reduced approximately $5 per ton to our customers. This represents a reduction of about 8 per cent. Other significant savings we have made enable us to carry larger stocks of standard styles; produce a greater tonnage of styles which are more salable; greater storage facilities; reduce cost of production due to elimination of certain styles; decreased cost per unit of product due to saving through fewer machine changes; simplified general sales department, and enable our customers to get bright, clean stock at all times, as the turnover is greater."

The field of simplification is wide and includes the interest of everyone. An item of particular interest to bankers is the standardization of the sizes of checks and drafts as recommended by the American Bankers Association. At present there are 102 different varieties of drafts and checks. The standardized check and draft would be helpful not only to bankers, but to the merchants and manufacturers generally; it would facilitate a better handling of checks in transit departments and would save the banker in purchasing his supplies.

Warehousemen and purchasing agents, assisted by the Department of Commerce, have already standardized the forms used in their respective fields.

Industrial Over-Development

WASTES from industrial over-development, which are being studied by the department, are among the problems of great importance to bankers. For example, a recent

investigation shows that in the period from 1918 to 1923 the capacity of the bituminous coal industry increased five times as much as it had in the previous five years, yet the demand for coal has not been growing at the pre-war rate, if at all. It is notorious that the industry was over-expanded at the end of the war, yet it was allowed to expand still further in the face of post-war adjustments; in the face of movements for greater economy in the use of coal; and in the face of the growing competition of fuel oil and gas. No wonder it is a "sick industry" today!

As the bituminous coal industry now stands it is over-developed to the extent of a capitalization of more than $3,000,000,000 and has on its rolls 200,000 more miners than are needed for stable production. If it operated 300 days in the year, the industry would produce 700,000,000 tons or more; the country has never consumed more than 550,000,000 tons. This great industry simply cannot make money unless there are strikes, the threat of strikes, or car shortage.

But the railroads have made marked progress recently. There have been no car shortages, and there has been a speeding up of delivery of all kinds of goods. In this situation, then, there must be strikes or the threat of strikes, or a great part of the bituminous coal industry will remain "in the red." It is important to note that non-union operators, as well as union operators, are failing to make money. This industry, "the worst functioning of any," must be deflated if it is ever to get on a sound basis. The elimination of these wastes is vital for the industry and for industries in general.

The Bankers' Interest

THE bankers' interest in this connection is obvious. Consolidations were recommended by the United States Coal Commission, together with the closing of high-cost mines, and far-sighted financial plans are needed in order to bring these about. If the industry as a whole is allowed to go bankrupt, it will benefit no one.

Every one of these many activities in waste elimination is in line with our conception of individual and group initiative. Not one of them means further intrusion of government into business. The only expansion of governmental activities which they contemplate is the strengthening of economic and physical research.

It is the duty of the Department of Commerce to "foster, promote and develop" the industry and commerce of the United States. The task of the bankers is the same. Cooperative efforts to get rid of economic waste will be of incalculable importance to our financial and social structure.

Balance of Power

(Continued from page 554)

out on approximately the lines proposed in the suggested groupings of October 11, 1924.

Consolidation Must Be "Natural"

SINCE the tentative plan of the Interstate Commerce Commission was promulgated in August, 1921, there has been a very great change in the official point of view of the method by which consolidations are to be effected. It is now realized that such combinations will have to be natural ones and that if the unification of American railroads into a small number of groups is to proceed satisfactorily and within a reasonable period, the Interstate Commerce Commission must be open-minded and sympathetic to suggestions originating with railroad managers. There is every evidence that they are sympathetic and that they will welcome suggestions that bring together natural units into approximately the same character of groups that were recommended in their original plan. In fact, only the other day Mark W. Potter, a retiring member of the Commission, said that the carriers should be allowed to go ahead and consolidate on their initiative in order that competition may be preserved, systems of balanced strength and efficiency created, and also that service might be improved, economy promoted and credit stabilized.

This is the gist of the effort being made by the four large eastern systems, out of which it may confidently be predicted a well balanced arrangement will eventually result.

Buying Advertising

The purchase of advertising has been reduced to a scientific basis whereby the purchaser may know in advance just what he is purchasing and the comparative value of the space he buys. The bank which still purchases advertising on sentiment, rule-of-thumb or superficial things may, if it will, save time, money and annoyance.

Convention Calendar

Date	State Association	Place
April 10-11	Florida	West Palm Beach
April 15-16	Louisiana	New Orleans
April 23-25	Georgia	Macon
May 6-7	Arkansas	Little Rock
May 6-7	Tennessee	Nashville
May 7-9	North Carolina	Pinehurst
May 12-13	Mississippi	Jackson
May 12-14	Texas	Houston
May 13-14	Maryland	Atlantic City, N. J.
May 18-19	Missouri	St. Louis
May 19-21	Alabama	Mobile
May 20-22	Pennsylvania,	Atlantic City, N. J.
May 20-23	California	Santa Barbara
May 21-22	Kansas	Topeka
May 26-27	Oklahoma	Tulsa
June 3-5	Ohio	Columbus
June 5-6	Connecticut	Swampscott, Mass.
June 5-6	Massachusetts	Swampscott
June 5-6	New England Bankers	Swampscott, Mass.
June 15-17	Iowa	Dubuque
June 16-17	Wisconsin	Milwaukee
June 18-19	Illinois	Peoria
June 18-20	Virginia	Hot Springs
June 19-20	Colorado	Bear Creek
June 22-24	New York	Ithaca
June 25-26	North Dakota	Devil's Lake
June ——	District of Columbia	Washington
July 11-13	Montana	Glacier Park
Sept. 16-17	Indiana,	West Baden or Indianapolis

Other Associations

April 20-23	Spring Meeting, Executive Council, A. B. A.,	Augusta, Ga.
May 6-8	Reserve City Bankers,	Louisville, Ky.
May 10-14	Associated Advertising Clubs of the World,	Houston, Tex.
May 19-22	U. S. A. Chamber of Commerce	Washington, D. C.
May 29-30	National Safe Deposit Association	Atlantic City, N. J.
June 8-13	Association National Credit Men	Washington, D. C.
July 14-17	American Institute of Banking	Kansas City, Mo.
Sept. 28-Oct. 1	A. B. A.,	Atlantic City, N. J.
Oct. 14-16	Financial Advertisers Association	Columbus, Ohio

New Books

FEDERAL RESERVE SYSTEM IN OPERATION. By E. A. Goldenweiser. McGraw-Hill Book Company, New York. 350 pages. Price $3.00.

The book describes the most important functions of the System, points out the principal problems with which it is confronted and outlines the methods developed or in process of development for the solution of these problems. The appendices contain a summary of the principal provisions of the Federal Reserve Act, arranged topically, and important data on Federal Reserve Board activities.

CONSTRUCTIVE MERCHANDISING. By Robert E. Ramsay. D. Appleton & Company, New York. 718 pages. Price $6.

Its purpose is to state the facts completely concerning successful merchandising campaigns—how they are planned—how others have conducted them—how the reader can plan them and make them work. It is a book built out of experience and gives actual examples of every possible method and medium of merchandising, whether it be of services or products.

BOND SALESMANSHIP. By William W. Townsend. Published under the direction of the Investment Bankers Association of America by Henry Holt & Company, New York. 468 pages. Price $4.50.

THE CHECK LIST METHOD OF AUDITING AND BOOKKEEPING. By F. W. Richardson. Accounting Systems Co., New York. 100 pages. Price $1.30.

We quote the foreword of this little book as follows: "A demand for more protective and economical methods of auditing and bookkeeping—those in general use being admittedly deficient in both respects—has led to the presentation herein of new and original ones that are 100 per cent efficient and readily comprehended; furthermore, they are equally applicable to and already introduced in concerns with comparatively small and the largest number of sales accounts. In adopting these methods business protects banks as well as itself from fraud."

Still Greater Help in

Announcing the merger of two great institutions that have grown by giving service that has aided banks to build business . . .

The Bankers Supply Company

IN 18 years, this company has grown to be the largest manufacturer of bank checks in the world. The yearly output of checks would reach seven times around the globe.

This amazing growth was founded and built upon the idea that banking supplies, particularly checks, could be made active helps in building business for banks.

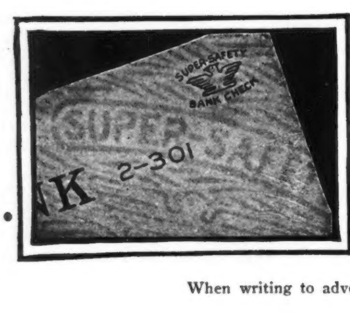
To this end it was necessary that checks be made something more than printed or lithographed slips of paper.

Super-Safety paper was the result. With this safeguard against check-fraud was combined the protection of the world-wide William J. Burns International Detective Agency, Inc.

Then came the plan of national advertising—to educate the public on problems and principles which should help banks attract new depositors. Consistently, for years, millions of people read these messages—month in, month out. Local help in advertising for the banks was put on an increasingly effective basis. The whole became a definite, effective merchandising plan for banks.

Modern manufacturing methods—from raw materials to finished products—made it possible to render this complete service to banks at no premium in price. A great national organization was perfected for maintaining contact with and rendering constant service to the banks of America.

The step announced today is but another logical move in this 18-year history of progress. It means greater and better service than ever—service that banks everywhere can utilize.



THIS is news that concerns the progressive bankers of America chiefly because it announces greater cooperation than they have ever had before—*in securing new depositors and holding present business.*

The Bankers Supply Company, originators and makers of Super-Safety Bank Checks, has been purchased by the Todd Protectograph Company.

Doubled effort for banks

Where these two institutions in the past have worked *separately*—they will now combine forces.

The great national advertising campaigns of each will be continued—reaching millions of Americans who are banking "prospects." But there will be a combining effort toward a common aim—and that aim the education of America on banking.

Research work toward solving problems of bank merchandising will become doubly effective—through cooperation between the two staffs.

Closer contact with banks will be made possible through the two great corps of trained representatives—600 men in the field, and offices in 125 cities. Thus service never before equalled will become immediately effective.

BANKERS SUPPLY

THE TODD COMPANY, World's Largest

NEW YORK CHICAGO

Western Conference

(*Continued from page* 565)

there is seldom any reduction in the principal if no provision is made to pay it off periodically. The rule of his bank is to ask for 1 per cent of the amount of the original principal and interest monthly. In the case of loans for building new houses, the practice is to make the term of the note for two years, the first year flat, the second starting the installments.

There is a rather general idea that when the superintendent of banking certifies that a bond comes up to the legal requirements it is a safe bond, A. D. Keyes, president of the Humboldt Bank of San Francisco, said. He pointed out that this was a misconception, citing the default in the payment of interest by eight corporations whose bonds had been certified as legal investments by former superintendents in the state of California. Mr. Keyes said he feared the general tendency of those examining bonds for investment was to attach too much importance to the yield in interest and to the value of the security, and not enough importance to the general business record of the corporation and none at all to the fact that the covenants in the mortgage given to secure the bonds are not generally very adequate for the protection of the bondholder.

As five qualities that ought to be found in private corporation bonds bought by savings banks, Mr. Keyes said, "They should be issued by a company with a long record and a record of ample earnings to meet its liabilities—by a company engaged in a business that normally yields a steady income. The maturity of the bonds should not be too far off, and above all, the bonds should have a ready and if possible a wide market. Of course, we should not have too many bonds of the same kind, but in any case the bonds we buy should always have those qualities that will make them safe investments for the bank."

JUST as the great C's of credit are character, capacity and capital, the great C's of departmentalized banking are cooperation and coordination, A. W. Moore, vice-president of the Oakland Bank of Oakland, stated in reviewing how the savings department might help the other departments. He gave examples of how the men at the savings window could give leads to the other departments and help them build up the bank's business. A great many specific suggestions for developing business through tips obtained in connection with savings accounts were given.

The fundamental purpose of schools savings is that the growing child shall acquire the habit of thrift, of systematic savings and of wise spending, A. H. Thomas, vice-president of the Pacific Southwest Trust & Savings Bank, said, although the systems must necessarily differ just as the traits of the bank managers differ. He described the system established in Los Angeles, explaining that first the banks had secured the consent of the educational authorities, formed an association, inviting all banks to join; appointed a supervisor to install the system, and had preceded the first visit of the supervisor by giving the children a pam-

phlet entitled "Of great interest to parents," which set forth the plan. On the last page of this was a receipt, which, when signed by the parents to the teacher, entitled the scholar to the loan of a home safe. Upon return of the receipt, the principal of the school delivered to the child a small home safe, together with an envelope containing on separate sheets of paper the names and addresses of all the banks. This permits freedom of action in choosing the bank. The children are encouraged to save their small coins and to make the deposits themselves.

To pay the expenses of the association, at first assessments were levied upon each member in the ratio that the savings deposit held by each member bore to the total of savings deposits held by all the members. This proved unfair and was discarded. Now each bank is assessed $1 per account for all accounts opened. At the end of the year any assessment for any excess cost is levied as originally planned.

THE most effective way to promote savings is by providing a purpose, Albert P. Ludwig, manager of the Thrift Department of the Anglo-California Trust Company, San Francisco, stated. He reviewed the various savings plans—the trust investment plan, trust savings account, the combined bank and insurance plan, the Christmas club account, "how to buy a $1,000 plan," and the payroll deduction plan. Of the combined insurance and bank account plan Mr. Ludwig said in actual practice it had been found by many banks that, after a period, either the bank deposits are not kept up, the insurance lapses or both bank account and insurance were discontinued, bringing disappointment to all concerned. He stated that it might be held the two enterprises are separate and distinct and should remain so.

The savings bank has paved the way for the investment banker, Paul A. Sinsheimer, vice-president of the Mercantile Trust Company of California, declared in discussing the relationship between the savings bank and investment houses. It also offers the largest outlet for his securities and is thus a reciprocal service providing distribution for the investment banker and giving to the savings bank an augmented degree of liquidity for its funds, he added. Mr. Sinsheimer referred to the complaint of some of the western states against the active flow of funds into foreign channels, while some of their own projects pressed for financial consideration. The resources of the western states are sufficient unto themselves to make a proper beginning on their own account, he said.

T. E. Ivey, Jr., cashier of the California Bank of Los Angeles, gave an illustrated talk on savings department records and methods. As a simple procedure to be followed where pass books are lost, mislaid or stolen, Mr. Ivey suggested that, after requiring a 30-day notice, all parties to the account should be required to join in an individual indemnity bond and an affidavit to the effect that they have not in any way pledged or disposed of the pass book. Instead of issuing a duplicate pass book, he said it was thought best to close the account and to open a new account bearing a new number.

W. R. Morehouse, vice-president of the Security Trust and Savings Bank of Los Angeles, discussed highlights in deposit building, while E. W. Wilson, president of the Pacific National Bank of San Francisco, considered the element of liquidity in the assets of a savings bank, both of which papers appear elsewhere in this issue of the JOURNAL.

Plans for Spring Meeting

PLANS for the Spring Meeting of the Executive Council to be held in Augusta on April 20-23 have been virtually completed. Two special trains, one starting from New York and the other from Chicago and St. Louis, will bring the councilors to the scene of the meeting. The western delegation has accepted the invitation extended by the bankers of Chattanooga to stop over for a day as their guests, and both groups will arrive at Augusta on Sunday.

The entire time of the sessions will be devoted to incisive consideration of the problems of organized banking. At the annual dinner, Merle Thorpe, editor of Nation's Business, will be the speaker.

Extending Service

(*Continued from page* 559)

the Internal Revenue Department for 1920 to show that the total amount of life insurance paid by all American companies, exclusive of war risk insurance, was not sufficient to cover the shrinkage of estates administered in 1922, without replacing any of the incomes of those who died. Total estates left amounted to $8,785,641,889, and the total shrinkage was $1,384,546,497. Death claims paid by regular and industrial insurance companies amounted to $349,963,-594.

The public should be shown that the shrinkage of an estate, administered by a trust company, is less than that of an estate administered by a private executor, Mr. Woods contended. He presented the result of a survey made in Allegheny County in Pennsylvania, covering the comparative results. In estates ranging between $1,000 and $5,000 the shrinkage in estates handled by trust companies was 30.3 per cent, as compared with 40.5 per cent when administered by private executors. In estates between $5,000 and $10,000 the shrinkage was 31 per cent and 38 per cent respectively. A greater amount of cash was later available to heirs of estates liquidated by trust companies, the survey showed also. The cash contents were:

Size of Estates	Trust Co. Per Cent	Private Executor Per Cent
$1,000 to $5,000........	62.7	58
5,000 to 10,000........	24.6	42.6

The funeral expenses of small estates, administered by trust companies, was also smaller, the survey showed. The portion of the estate expended was compared thus:

Size of Estates	Trust Co. Per Cent	Private Executor Per Cent
$1,000 to $5,000........	10.8	13.9
5,000 to 10,000........	4.3	5.6
10,000 to 20,000........	1.9	3.6

In this survey 17 per cent of estates were administered by trust companies, and 83 per cent by private executors and administrators. Mr. Woods urged the cooperation of trust companies all over the country in compiling figures showing the amount of the total estate, cash left and the amount left for distribution.

"If trust companies would gather these figures," Mr. Woods stated, "the services rendered to trust companies by life underwriters through informing the public of the advantages of having the competent administration of trust companies would be great. This work could be done not only by the 150,000 trained solicitors of life companies, but it could be done wisely by the trust companies themselves. Trust companies may not desire to antagonize the private executors, or in some cases incur the criticism of those who desire the personal appointment as executors. But if the life underwriters can disseminate these figures in talking to the millions of persons who every year create estates through them, it would be a great service to the public and to trust companies as well."

A Cooperative Program

AS a cooperative program Mr. Woods urged that trust companies and life insurance underwriters should urge everyone to "make a will, appoint a trust company as executor and provide your executor with ample cash through life insurance."

The need for something that will protect a widow from blue-sky salesmen and high-powered promoters was graphically illustrated by Mr. Woods. He recited how, in response to this advertisement inserted in a Pittsburgh newspaper, "$10,000 to Invest. A widow, lacking business experience, wishes to invest safely $10,000, the proceeds of her husband's life insurance policy, in some enterprise or securities of merit which will afford safety of principal and a reasonable income. Interviews will be granted to those whose letters seem most promising"; a large number of enlightening responses were received.

A few selected "unusual propositions" submitted included one from a newspaper agency, which offered a return of $500 a month. An interest in a commercial hotel was proposed, and a return of 40 per cent promised. A stock promotion scheme "guaranteed" $10,000 and the principal within six months. The position of vice-president in a company as an inducement to make the investment was proffered by five patented articles. A stock proposition from a chemical company "guaranteed" 2 per cent a month. Stock in chain stores was offered with a yield of 18 per cent. Florida orange groves were suggested as a means of obtaining from 8 to 30 per cent on the widow's money. If interviews were granted, a number informed the inquiring widow that they could show how from 100 to 300 per cent profit might be made "with safety." Singularly enough, one letter stated that a 32 per cent return could be had from the banking business, while an interest in a coal and ice company was offered, guaranteeing 25 per cent. These responses indicated the questionable propositions that a woman, without business experience, would have put to her for consideration.

"It is well known that the life insurance companies have had to stop publishing lists of claims paid, because these lists are eagerly sought for by persons not desiring to deliberately defraud the widow or family, but unduly anxious to secure capital for investments that no trust company would recommend or permit," Mr. Woods commented.

Making Administration Easier

STRESSING the inadequacy of the amount of insurance left to replace the capital value of American lives lost, or even to liquidate the estates, Mr. Woods said it was obvious that if more life insurance had been provided, not only would the total amount of estates left to administer have been greater, but the increased life insurance being paid in cash would have made the administration easier.

Appealing for the closest coordination of effort, Mr. Woods concluded his remarks thus: "Why should not the trust companies make use of this army of 150,000 life underwriters, who sold 3,357,766 policies last year exclusive of industrial policies, whose daily business it is to discuss the creation of estates or their conservation, and who in daily soliciting lead their prospects or clients in spirit right by the trust company

door? Is it not our common interest to cooperate that the life underwriter's job may be more completely done, and that the insurance provided at the self-sacrifice of the insured and by the diligent effort of the underwriter in effecting it, shall serve its purpose?"

When the question was raised as to what is the correct charge to be made for administering a life insurance trust, Mr. McDouall replied that a schedule had been adopted in Newark imposing a charge of 5 per cent on the income for the first ten years, 3 per cent thereafter and 1 per cent on the corpus on the termination of the trust. The corpus was considered to be the original amount plus the proceeds of the life insurance, or the amount distributable at the termination of the trust. In event of the revocation of an unfunded trust, a charge of from $25 to $50 is imposed. He explained, however, that charges for rendering these services varied in various parts of the country.

The Clean-Up Policy

THE first step in program insurance, Mr. Woods explained, was a clean-up policy that would provide ready money for paying the debts incurred by a man's death, leaving the insurance on his life clear. He advocated making the policy payable in cash to the executor. Mr. McDouall, however, urged that the clean-up policy should be made payable to the trust company as a trustee, because a policy payable to an estate would become taxable both to the state of domicile and the Federal government. To cover this contingency there would be no objection, he said, to inserting a clause in the trust agreement, making it possible for the trustee to make a loan to the executor at a legal rate of interest to provide cash for the clean-up of taxes, administration expenses and debts.

The tremendous liability that a trust company incurs in accepting this form of trust business was reviewed. First, it was suggested that a carefully arranged system should be installed to prevent a company from failing to pay premiums and thus permitting the policy to lapse. To place other safeguards around the payment of premiums, it was stated that the trust agreement should provide that if there were insufficient income on hand to pay the premium and, should the donor fifteen days after notification fail to make good, the trustee should have power to liquidate a sufficient part of the corpus of the trust to pay the premium. Finally the trust company should be given the right to make premium loans to obtain full protection.

An irrevocable life insurance trust is regarded as most satisfactory where there is a funded trust, Mr. McDouall said, but in the unfunded form it is advisable that there should be the power of revocation. However, before an irrevocable trust is created, he expressed the opinion that it was highly desirable to go to great lengths to impress upon the maker just what was taking place and to drive home the point that he was "kissing the securities in the fund goodbye" for all times.

Estate Tax Problems

THE efforts being exerted by the special committee to cooperate in bringing about an adjustment of the estate tax problems were reviewed by Roy C. Osgood, vice-president of the First Trust and Savings Bank of Chicago. He recited that the special committee appointed at the Divisional convention in Chicago last fall had met in New York on Dec. 6, with Professor Belknap of the University of Louisville, who had been prominent in the work of the Nation Tax Association in evolving a model inheritance tax law. Professor Belknap outlined what the association has sought to do, Mr. Osgood stated, and posted the committee as to what the present situation was.

"Five plans were brought under consideration," Mr. Osgood stated.

"First, there was discussed the plan of government collection. This plan was suggested by Dr. Adams, providing that the Federal government should collect all taxes and apportion to the states on the basis of domicile or situs or transfer or a combination of these bases. Apparently that plan did not find much favor in the National Tax Association.

"The second plan reviewed was what is known as the Wisconsin plan, proposed, I think, by Mr. Harrington of Wisconsin Tax Commission. The suggestion there was to limit inheritance taxes to one tax based on physical property inside the state and no tax at the place of domicile on extra-state personalty.

"A third plan, called the English plan, was discussed, which is the taxation of a transfer only at the place where the trans-

fer actually occurs. This has been worked out between England and her colonies. This surrenders the right to tax on the basis of domicile.

"Then, fourth, there was discussed the domicile plan, the tax to be levied only at the place of domicile, except in the case of real estate, which should be taxed at the place of real estate situs. Massachusetts and New York and some other states adopted this plan, but as the Western states gradually changed and adopted other bases, New York and Massachusetts changed back.

"The fifth plan discussed was the so-called Matthews plan.

Non-Resident Intangibles

"IT is easy to see that the principal problem placed by this discussion before the National Tax Association was the problem of non-resident intangibles; that is, the share of stock, for instance, which is owned by a New York decedent of an Illinois corporation and is taxed in Illinois, and which on certain other theories may be taxed in other states.

"The Matthews plan has been placed in legislative existence in New Hampshire, Connecticut, Virginia and Kentucky, and Colorado is considering it at the present time. It simply places a flat tax of 2 per cent on stock of a New Hampshire corporation, to cite a specific example, owned by a foreign resident decedent. It is not necessary to throw the whole estate into the state of New Hampshire and go through the usual troubles and difficulties of apportionment, of question of deduction, exemptions and questions of debt to get at that estate. All is taken care of by simply paying a flat 2 per cent tax. As I understand the procedure, the tax could be ascertained and paid almost within twenty-four hours if an executor is within that mail-time reach of New Hampshire, or any of the other states having the plan in operation.

"Strictly speaking it is still double taxation, but so far as cost of paying the tax and finding out what the tax is is concerned, it is far better than the plans in most of the states that have bad duplicate tax burdens on non-resident intangibles.

The First Problem

THESE various plans were discussed by the committee, leading to the conclusion that the paramount problem is that concerning non-resident intangibles. It decided to make a thorough survey of the subject, and I may say that the progress already made leads us to hope within a very short time it will be completed. After the survey has been completed, it is our intention to make certain definite suggestions as to corrective legislation.

"Of course, the program is a large and a long one. It is not easy of accomplishment, but it gives us all so much trouble that it must be solved in some manner. The chances are it can only be solved by a combination of experience and suggested remedies worked out not only by the Trust Company Division but various other organizations in combination with it."

Another great group looking to the trust companies for advice concerning the proper financial management of their funds is composed of philanthropic and educational institutions, Dr. Alfred William Anthony, chairman of the committee on financial and fiduciary matters of the Federal Council of the Churches of Christ in America, told the conferees. He stated that the amount of money and property held by the church authorities and the educational institutions could not be accurately estimated, but said it reached into the billions. The home mission group alone spends $25,000,000 annually.

At a recent conference of the members of the finance committee, in joint session with the representatives of universities and other institutions having large endowments, it was voted that "favorable attention to all of those having care of securities should be called to the facilities of trust companies for handling these securities at a minimum cost," Dr. Anthony recited. The conferees voted also to seek the approximation of uniformity in legislation throughout the states as to notice to legatees, the percentage of the estate that may go to charity and as to the time elapsing after a will is made before the death of the testator.

"We are concerned," Dr. Anthony said, in discussing the general problem, "with the long haul viewpoint of sound investment for these endowment funds. These funds present a great field for trust company services. The trust companies are custodians of securities, and we are moving in the direction of looking more and more to them

for advice in regard to the watching of securities, the sound distribution of investments and the audit and review of securities. The church organizations and the trust companies have a common basis of interest in regard to wills leaving philanthropic endowment funds, and they can promote the making of such wills by calling attention to the fact that the churches, as expert administrators of philanthropic funds from the point of view of charity, and the trust companies as experts from the point of view of financial management, are cooperating for the best results. The organizations represented in the Federal Council of the Churches of Christ in America are making every effort to put their houses in order in the administration of philanthropic funds."

In recognition of the services that trust companies are rendering, President Coolidge dispatched a message from Washington to Lucius Teter, as President of the Trust Company Division, saying:

"I am very glad to renew this year the good wishes and congratulations which I have before had occasion to express to your membership. It should be a matter of pride to your Association to raise still further your already high standard of service to the community through the careful preservation of that trust which the people have learned to place in you."

A round of applause greeted a message from Vice-President Charles G. Dawes, who expressed his regrets upon being unable to attend and expressed his cordial regards.

The importance of the trust company in the American financial system was stressed in a letter from Secretary of the Treasury Mellon, who said:

"Trust companies fill a useful and necessary place in our financial system. Their importance is best attested by their steady growth, particularly during the last twenty years in safeguarding property, promoting thrift and encouraging the sound investment of funds that would otherwise be lost through speculation, fraud and carelessness. Trust companies are rendering a service of inestimable value to the country. They play an almost indispensable part in conserving our resources and helping to provide the necessary capital for the nation's continued development."

The Vast Resources

THE magnitude of the corporate trustee served was indicated by President Teter, who presided over the fourteenth annual banquet at the Hotel Commodore, where more than 1100 gathered.

"Twenty-five hundred trust companies have sixteen billions of resources, and sixteen hundred national banks have qualified to do a trust business," he said. "The importance of the corporate trustee is of first magnitude, particularly when it is borne in mind that the resources of these corporate fiduciaries are only a fractional part of the financial operations which they have a part in managing. It is, therefore, of importance, first, how we acquit ourselves of this responsibility, and, second, what the public, whom we serve, thinks of us.

"The Trust Division in its thirty years of existence has given careful attention to the training of trust men and has encouraged the public to understand and use trust company service. We believe that as the great corporation providing transportation takes the place of the individual stagecoach owner of the earlier day, just so does the suitably capitalized, well-manned corporation acting in a fiduciary capacity properly take the place of the trusted and honored individual trustee of former days.

"It is an important part of our task so to conduct these institutions that no one will misunderstand their character or feel that their great influence is at any time misdirected. To that end it seems to me that we must insist upon a professional point of view. If the management of trust company business is not a profession, it should head the list of businesses in which professional ideals dominate. It would seem desirable for the trust company or national bank, which is developing a fiduciary department, to keep in mind that there is something more than commercial profit to be considered.

"From time to time members of the bar have had just cause for complaint of certain activities of trust companies. Our division has a standing committee on cooperation with the bar, and we have been most earnest in recommending to our members the avoidance of anything that has the appearance of the practice of the law. We think that the leading lawyers of the country fully understand this and that they believe thoroughly in the corporate form of trusteeship. However, it is a definite responsibility that each one of us should share, that we at all times conduct our institutions in harmony with the proper ideals of the American Bar Association, and be alert to correct any misapprehension which a member of the legal profession may have concerning our activities.

"When one realizes the rapid growth of

wealth in this country and measures the future with some such measuring stick, for instance, as the amount of life insurance now in force, between sixty and seventy billions, most of which will be paid within the next thirty years, some idea may be formed of the responsibilities in store for both lawyers and corporate fiduciaries."

Faith Amid Pessimism

SIR HENRY THORNTON, chairman and president of the Canadian National Railways, declared that the faith American investors had shown in Canada was well deserved, as the Dominion had untold wealth in natural resources. While the railway lines of which he is the directing head are government-owned, Sir Henry related how the force of circumstance, rather than deliberate belief in state ownership had brought the Canadian people to acquire the properties.

While observing the reign of pessimism about the present and despondency about the future, Ernest Martin Hopkins, president of Dartmouth College, hailed with satisfaction the fact that "civilization has developed to a stage where men can guarantee and justify a confidence which may be reposed in them, and where trusts can be established and protected and held inviolate from one generation to another to the good of countless individuals, to the advantage of numberless institutions and to the enhanced stability of society as a whole.

"Man lives a legatee of the past and an heir of the future, creating, conserving and transmitting. Hence it comes about that trusts are possible and associations are needful for perpetuating these, whether these be accumulations of material values or of intellectual values or of spiritual values. And thus we come to consideration of such institutions of society as the bank, the college and the church, and to a realization that a common principle lies behind all of these."

Canada's Railroads

(*Continued from page* 566)

We are all trustees, and there is no greater trustee than he who happens to be put in a position of responsibility and authority in in any great institution. Railway executives are the trustees of three things, the welfare of the communities they serve, the security of those who have invested their savings in the enterprise, and they are also the trustees of the officers and men who are in their employ. A railway company or any great institution which serves the public must maintain three things: Solvency; an adequate service to the public, and it must pay those wages to officers and men under such working conditions as will enable them to live in prosperity and peace and bring up their children as self-respecting members of society.

In other words, railway executives have come to be, in a very large sense, trustees—trustees for the public, trustees for those who have invested in the enterprise, and trustees for the officers and men who serve the company.

There are two great assets to which every railway company should aspire, and no price is too great to pay for those assets. The first is the confidence and the good-will of the public and the community which they serve, and the second is the loyal support of both officers and men.

If these two things are achieved, the rest is relatively unimportant. After all, these are the days in which our workmen combine, and I think rightly so, for the maintenance of their rights. We are prone to regard at times the trade union as the enemy of capital. I maintain that the trade union is not the enemy of capital. Trade unions are here; they cannot be gotten rid of, and it is very much better to work with them than to fight with them. I have had considerable experience with laboring men on both sides of the Atlantic, perhaps more especially in England, and I have never yet had a trade union leader or a trade union play other than fair.

We have lately in England had a labor government. That labor government gave to England from an administrative point of view the best government which the British Empire has had within recent years. That may seem to you an extraordinary statement, but it is not only my own opinion, but it is the opinion of many individuals in England who have had an opportunity to observe the workings of that government. I see no reason why there should be constantly recurring contentions between capital and labor. I believe that labor, properly handled, will invariably respond.

Land Problem

(*Continued from page* 548)

supplemented by localized studies of ownership and tenancy problems in cooperation with interested states. The results of these studies were summarized in a comprehensive article on farm ownership and tenancy published in the yearbook of the Department of Agriculture for 1923. About 4500 bankers have asked for and have received copies of this article, a manifestation of the great interest bankers have in the problem of farm tenancy. A statistical correlation of the form of tenure with size of farm, farm land value and color of occupant is one of several interesting correlations that are being made.

A statistical study of the rate of return on investments in farm land has been completed and published as a contribution toward a satisfactory basis for framing policies for land appraisal, for taxation and for rural credit. Other research projects in land valuation include a survey to measure the effect of such factors as yield per acre, distance to market and road type on land value, and extensive data have been collected on trend of land values in relation to prices of farm products, rates of interest, improvements, etc.

A system is being developed whereby upwards of 60,000 selected correspondents will report four times a year on land values and turnover, land tenure and occupancy, land utilization and farm labor conditions. These reports should furnish comprehensive and valuable annual statistics on important aspects of land economics.

Government and states agencies are not the only ones that cooperate heartily in these projects. Several land companies and several associations of settlers in some of the reclamation areas have helped to make these studies possible.

"No Time to Read"

HOW long will it take a busy man, a man who is carrying real responsibilities, to read 150 books?

The question is raised because so many men feel that, if they had time, they could read many desirable things that are now escaping them.

The question may be answered by taking a page from the life of Theodore Roosevelt, who read over 150 books during the first two years he occupied the White House. The secret of his ability to read so extensively is that he had trained himself to read rapidly and that he had a way of turning to some good use those spare moments which so many people let slip away unfreighted by anything useful.

This is the Roosevelt list, as compiled by the *Century* in 1905; and it is important to remember, if we are to estimate fairly the possibilities of improving our time, that this is not a complete list of all the books that Mr. Roosevelt read in that period:

Parts of Herodotus; the first and seventh books of Thucydides; all of Polybius; a little of Plutarch; Aeschylus's Orestean Trilogy; Sophocle's "Seven Against Thebes"; Euripides' "Hippolytus" and "Bacchae"; Aristophanes's "Frogs"; parts of the "Politics" of Aristotle—the foregoing in translation; Ridgeway's "The Early Age of Greece"; Wheeler's "Life of Alexander the Great" and some six volumes of Mahaffy's studies of the Greek world—of which only chapters here and there were read; two of Maspero's volumes of the early Syrian, Chaldean and Egyptian civilizations—these read superficially; several chapters of Froissart, the memoirs of Marbot; Bain's "Charles XII"; Mahan's "Types of Naval Officers"; some of Macaulay's "Essays"; three or four volumes of Gibbon; and three or four chapters of Motley; the lives of Prince Eugene, of Admiral de Ruyter, of Turenne and of Sobieski—all in French; the battles in Carlyle's "Frederick the Great"; Hay and Nicolay's "Lincoln," and the two volumes of the "Complete Works" of Abraham Lincoln—these were not only read through, but parts were read again and again; Bacon's "Essays"—curiously enough he had not really read these until now; "Macbeth"; "Twelfth Night," "Henry the Fourth," "Henry the Fifth"; "Richard the Second"; the first two cantos of "Paradise Lost"; some of Michael Drayton's poems—he cared for only three or four; portions of the "Nibelungenlied"; portions of J. A. Carlyle's prose translation of Dante's "Inferno"; "Beowulf"; Morris's translation of the "Heimskringla," and Besant's translation of the sagas of Gisli and Burnt Njal; Lady Gregory's and Miss

Hull's "Cuchulling Saga" together with "The Children of Lir", "The Children of Turaine", the tale of "Deidere"; Moliere's "Les Precieuses Ridicules"; Beaumarchais's "Le Barbier de Seville"; most of Ambassador Jusserand's books (among which he was most interested in his studies of "Kings Quhair"); Holmes's "Over the Teacups"; Lounsbury's "Shakespeare and Voltaire; various numbers of the "Edinburgh Review" from 1803 to 1850; Tolstoi's "Sebastopol" and the "Cossacks"; Sienkiewicz's "With Fire and Sword" and parts of his other volumes; Scott's "Guy Mannering", "The Antiquary", "Rob Roy", "Waverley", "Quentin Durward", parts of "Marmion" and the "Lay of the Last Minstrel"; Cooper's "The Pilot"; some of the earlier stories and some of the poems of Bret Harte; Mark Twain's "Tom Sawyer"; Dicken's "Pickwick Papers" and "Nicholas Nickleby"; Thackeray's "Vanity Fair", "Pendennis", "The Newcomes," "Adventures of Philip"; Conan Doyle's "The White Company"; Lever's "Charley O'Malley"; the romances of Charles Brockden Brown (from motives of curiosity, but without real enjoyment when he was confined to his room with an injured leg); an occasional half hour's reading in Keats, Browning, Poe, Tennyson, Longfellow, Kipling, Bliss, Carman; also in Poe's tales and Lowell's essays; some of Stevenson's stories and of Allingham's "British Ballads"; and Wagner's "The Simple Life." He read aloud to his children and often finished afterward to himself. Thackeray's "The Rose and the Ring", Hans Anderson's stories, some of Grimm's, some Norse folk-tales, and stories by Howard Pyle; "Uncle Remus" and the rest of Joel Chandler Harris' stories (he is known by the way to have said, "I should be willing to rest all that I have done in the South, as regards the negro, on his story, 'Free Joe'"); two or three books by Jacob Riis; also Mrs. Van Vorst's "The Woman Who Toils", and one or two smaller volumes; the nonsense verses of Carolyn Wells, first to the children and afterward for Mrs. Roosevelt and himself; Kenneth Grahame's "The Golden Age"; what he has called "Those two delightful books" by Somerville and Ross, "All on the Irish Shore" and "Experiences of an Irish R. M."; Townsend's "Europe and Asia"; Conrad's "Youth"; "Phoenixiana"; Artemus Ward; Octave Thanet's stories—he especially liked those that deal with labor problems; various books on the Boer war, of which he liked best Viljoen's, Steeven's, and studies by the writer signing himself "Linesman"; Pike's "Through the Subarctic Forest", and Peer's "Cross Country with Horse and Hound" together with a number of books on game-hunting, mostly in Africa; several volumes on American outdoor life and natural history, including the re-reading of much of John Burroughs; Snellendam's "The Real Malay" and Trevelyan's "The American Revolution". Also twenty-three volumes of current fiction.

Your Journal En Route

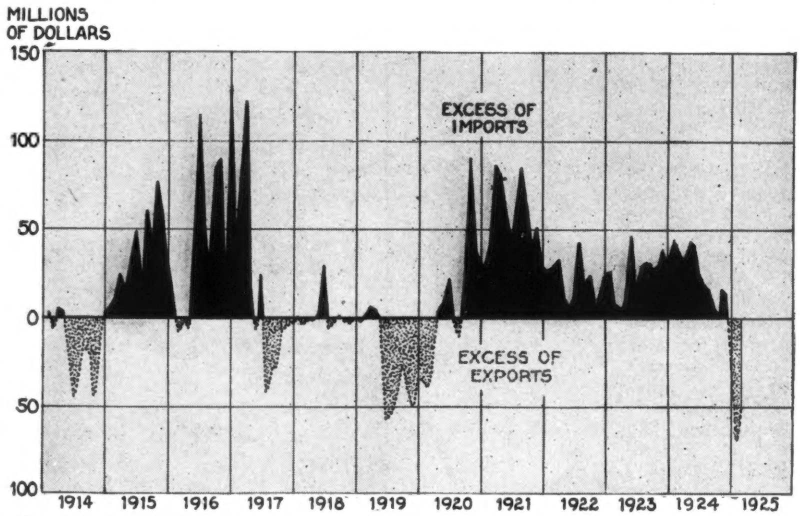
The American Bankers Association Journal is now to be found in the club cars of the limited trains on the Pennsylvania Railroad System.

The Condition of Business

A High Rate of General Business Indicated By Expansion In Production, Larger Railroad Shipments, and Active Drawing Against Bank Accounts. Gold Exports Reflected In Firmer Money Conditions and Enlarged Demand for Reserve Credit.

COMPLETE reports for January confirm the earlier indications of a very high level of industrial and trade activity in that month, and the weekly figures since then have shown no evidence of any marked falling off in business during February.

The Federal Reserve Board's index of output in 22 basic lines of industry, which had already advanced 25 per cent since midsummer, showed a further increase of 8 per cent in January to the highest point since the spring of 1923. Greater activity in the iron and steel industry contributed largely, as in preceding months, to the increase in level of total production, but the output of lumber, minerals, food products, and paper, and mill consumption of cotton also showed considerable increases in January. Employment at industrial establishments throughout the country increased only slightly, however, further additions to working forces in the metal, textile and leather industries being largely offset by seasonal declines in the number employed in the building materials and food products industries. Building activity, as measured by contracts awarded, was practically equal to the exceptionally large figures of last year, while contemplated new work and permits issued, which precede the actual letting of contracts, were also close to the totals of a year ago.



Net United States imports and exports of gold (the February figures are preliminary)

Railway shipments throughout the country in the first seven weeks of the year were 2 per cent above the record figures of a year ago. Gains occurred in every section of the country, except the eastern, and were especially marked in merchandise and miscellaneous freight in the western districts. The increases in these classes of goods, which include those moving into consumers' hands and into retail trade channels, furnish interesting evidence of the improved purchasing power of the farming population. Similar testimony comes from the large mail order houses, whose sales are running far ahead of last year. Many sections are now buying which have been out of the market for some time, and the largest increases in mail order sales are reported in building materials, fencing, machinery, and similar necessaries for the farm and home, while the smallest increases are for jewelry, millinery and other articles of luxury.

Increases in business and financial activity in January were accompanied by a considerable increase in the rate at which funds were checked out of banks. This increase, together with a further increase in the average level of bank deposits for the month, resulted in a larger total of check payments, or debits to individual accounts, in 140 centers outside New York City, than in any previous month, notwithstanding that the passing of holiday trade usually results in a decline from December. During February, the daily amount of withdrawals averaged 10 to 15 per cent higher than last year. Wholesale prices, as measured by the index of the Bureau of Labor Statistics, advanced 2 per cent further in January to the highest level in four years. As in preceding months, the advance was due largely to further rises in farm products and foods. Available weekly price indexes, which are less inclusive than the Bureau's, showed a further advance in the general level of wholesale prices in the latter part of February.

Gold Outflow Continues

PRELIMINARY and unofficial figures on the gold movement during February indicate some diminution in the rate of net gold outflow as compared with January, when net exports amounted to about $69,000,000, the largest in any one month in the past decade, as shown by the accompanying chart, which was prepared by the Federal Reserve Bank of New York. Through the Port of New York, gold exports in February amounted to about $34,000,000, mostly additional shipments to Germany out of proceeds of her American loan, and further consignments to British India, together with a number of small shipments to several South American countries. A substantial amount was also reported to have been shipped from San Francisco to Australia as a result of an exchange operation. For the three months December to February, inclusive, total exports for the country are estimated unofficially at approximately $160,000,000, distributed as follows:

British India	$55,870,000
Germany	50,010,000
Australia	22,900,000
England	16,374,000
Holland	5,643,000
Sweden	2,004,000
China	1,702,000
France	1,368,000
Poland	1,104,000
Mexico	1,022,000
All other	2,013,000

The outflow of gold during the past three months has had an effect on money rates and banking conditions opposite to that produced by the inflow which was prominent during the first half of 1924. The decline in business activity which began in the early spring of that year occurred at a time when imports of gold were averaging $30,000,000 to $40,000,000 a month in excess of exports. Banks which were members of the Federal Reserve System were using the gold received from abroad gradually to reduce, and in many cases to extinguish their indebtedness at the Reserve Banks. Any additional funds which came into their possession were added to their reserve balances and were then capable of supporting several times their amount in member bank deposits. Under these circumstances, banks were eager to employ their funds, money rates declined gradually to the lowest levels in recent years, and otherwise idle reserves were employed in security investments and in loans on stocks and bonds.

The recent outflow, coming at a time when business activity was large and still expanding, when the security markets were continuing to absorb large amounts of credit, and when foreign borrowing here had been going on for nearly half a year at the rate of $5,000,000 a day, has been a chief factor contributing to firmer money conditions in

recent weeks. Money rates have in many cases recovered to the levels prevailing late last spring. Open-market rates on prime commercial paper advanced to 3¾-4 per cent for most sales, although commercial borrowing through the open market appears to have increased much less than usual since the first of the year. Firmer conditions in the market for bankers acceptances were indicated by a somewhat reduced demand for bills, moderately increased sales to the Reserve Banks, and an advance of ¼ of 1 per cent in the open market rates on most maturities to 3¼ per cent in the case of prime 90-day bills. Call and time loans on stock market collateral also advanced moderately.

Banking Credit

LOANS and investments of reporting member banks in leading cities, following the rapid rise during the last half of 1924 to a new high record, declined by about $100,000,000 between January 14 and February 18. Security investments, which on January 14 had already declined $60,000,000 from the high record of last November, showed a further decline of $150,000,000, chiefly at banks in New York City. Loans on stocks and bonds increased moderately, notwithstanding a decline in New York City, while loans made largely for commercial purposes were practically unchanged for the period at the highest level since 1921. Net demand deposits also declined sharply from the high point reached on January 14, most of the decline being in New York City.

The usual seasonal liquidation of Federal Reserve Bank credit came to a close by January 21 when discounts reached the lowest level since 1917. Effects of the demand for gold for export, which earlier in the month were overshadowed by the return flow of currency from circulation, now began to appear. To secure gold for export and at the same time maintain their reserves with the Reserve Banks, member banks increased their borrowings from the Reserve Banks very substantially, so that the System's holdings of bills discounted reached the highest point since May, 1924. The accompanying withdrawals of gold reduced the holdings of the Reserve Banks so that by February 25 total gold reserves of the System were $150,000,000 lower than at the end of November and at the lowest point since 1922. Effective February 27, the discount rate of the Federal Reserve Bank of New York was increased from 3 to 3½ per cent on all discounts and advances.

Business Profits

FINANCIAL statements for the year 1924 of leading concerns engaged in manufacture and distribution, many of which were published in February, showed considerable variations among different lines of business as to the amount of new profits earned in comparison with earlier years. Concerns manufacturing steel and railroad equipment earned substantially smaller amounts than in 1923, reflecting the sharp curtailment of operations which occurred in the second and third quarters of the year. Companies engaged in the manufacture of textiles and clothing also reported reduced profits, and in the case of motor and accessory companies, most of whose annual statements had not yet appeared by the end of February, the

figures for nine months also indicated substantially smaller profits than in 1923. On the other hand, concerns in many other lines of business, as for example, those making food products, shoes, tobacco products, and miscellaneous articles, as well as those engaged in merchandising, showed net profits equal to 1923, or even larger. Telephone and other public utility companies, the demand for whose services is relatively little affected by changes in general business conditions, continued to show increases in net profits, as had been the case for many years.

Rail Traffic and Earnings

EARNINGS of Class I railroads continued in 1924 at the relatively high level reached in 1923, notwithstanding a decline of about 6 per cent in traffic. The roads were able to achieve this result through economies in operation, which have followed in part from increased expenditures on equipment, roadbed, and other parts of the plant during the preceding year or two. The following table, based on computations of the Bureau of Railway Economics, shows for the country as a whole and by leading districts, the percentage changes in freight tonnage, the principal source of operating revenue, and net operating income in 1924 as compared with 1923. Although each of the three districts shows a decline in tonnage carried, earnings in the southern and western districts increased, while in the eastern district the decline in earnings was much less than in traffic:

	Per Cent Change from 1923	
District	Tonnage	Earnings
Eastern	—9.8	—2.8
Southern	—4.0	+9.9
Western	—1.5	+0.8
United States	—6.2	+0.3

January reports from 30 roads, available at the end of February, showed a continuance of improved earnings, despite heavy snow storms this year in many parts of the country. Notwithstanding the recent improvement, however, earnings still average considerably lower than 5¾ per cent on capital invested, the rate established by the Interstate Commerce Commission as a "fair return."

Cotton Milling

THE cotton goods industry has been gradually expanding its operations since the middle of the summer, and in January more bales of cotton were consumed by domestic mills than in any one month since May, 1923. Activity in January was estimated at only about 4 per cent below normal, the highest rate of operations since November of 1923. The present prospect is for more steady operations than for some time, because of a better relationship between prices of raw material and finished goods, and because of lower wage scales.

Beginning about the middle of 1923 and continuing during most of 1924, the price of raw cotton fluctuated at a level considerably above that at which goods could be made up and sold to consumers. As a result, the industry gradually reduced its activity and at low ebb in June of 1924 was operating at only 60 per cent of its normal rate for that month. The following table indicates in an approximate manner the way in which the disparity between raw cotton and cotton

cloth prices operated to limit production. The price indexes are those compiled by *Textile World* and are based on July, 1914, as 100 per cent. The index of mill consumption of cotton, which reflects the state of activity, is based on figures published by the Federal Reserve Bank of New York, which takes as 100 per cent the computed normal of past years, after allowing for usual seasonal variations and year to year growth.

Date	Price Indexes		Per Cent of Normal Activity
	Cotton	Cloths	
July, 1914	100	100	99
January, 1923	225	225	103
April	231	233	101
July	217	212	83
October	237	219	94
January, 1924	278	236	95
April	220	193	83
July	270	189	61
October	195	188	91
January, 1925	192	184	96

In general, it is seen that when the prices of raw cotton and finished goods are in fair agreement, as at the base date of July, 1914, or in January and April, 1923, mills have operated at about the rate normally to be expected. But when cotton soared above the price of goods, activity fell off and touched the lowest level in July, 1924, when the price disparity was greatest. The expansion in mill operations since last July has been possible through the re-establishment of more normal price relations between raw materials and finished goods, aided in the case of most New England cotton mills by a wage reduction of 10 per cent. This reduction substantially offsets the advance which was made in April, 1923, and leaves wage scales still about 111.0 per cent above the pre-war level, a somewhat larger margin of increase than shown for raw materials or finished goods.

How Savings Banking Helps the Community

DURING the Western Regional Savings Banks Conference, held in San Francisco last month, there was a prize speaking contest for representatives of chapters of the American Institute of Banking in eleven western states. The first prize was won by Paul B. Kent of the California Bank of Los Angeles; the second prize, by H. W. Loewen, Long Beach branch of the Security Trust and Savings Bank of Los Angeles. Mr. Kent's speech follows:

"IT is necessary first to set forth clearly the place which savings banking occupies in the commercial structure, in considering how savings banking helps the community. In brief, its chief function is to provide a safe place for the man of moderate income to keep his surplus funds. This function naturally divides itself into two operations. First, receiving the deposits of the individual, and second, the investment of these funds.

"The benefit of savings banking to the community is immediately apparent in both of these operations. Consider the first one. The man of moderate income forms the largest part of the savings department's patrons. Let us see what savings banking does for the depositor. First, it offers him safety. By the very nature of his resources this is his prime requisite. It is what he looks for above all else. Second, it gives him immediate return on his surplus, no matter how small. His income being moderate, his periodical accumulations would be ineffective as units, and instead of having to wait until these sums have grown to an effective amount for investment, he is able to deposit small amounts as they are accumulated and get a good return on them. Third, though he only deposits one dollar, his money is safeguarded with all the experience and judgment gained by bank officials over a period of many years.

"Consider the second operation, that of investing these funds. After having mobilized the surplus of the individuals of the community, the savings bank then uses it for the upbuilding of this same community. By investment in real estate mortgages, the proceeds of which are used for improvements which increase the value of the community's property, and in bonds used to finance projects which make for its growth and enlarge its scope and influence, and developments which make it a better place in which to live, savings banking makes possible the full economic use of a great part of the community's resources, which would otherwise be unproductive.

"Another very real benefit of savings banking to the community is in the encouragement of thrift. Since a community's prosperity depends upon the thrift, industry and initiative of its individuals, the savings bank helps to build the foundation of the community's progress. The school savings systems, in operation in many parts of the country and under which many thousands of school children carry savings accounts, are monuments to savings banking.

"In the cooperation the savings bank gives its depositors, we find an important benefit. It has been said that when a man chooses his bank he does more than merely designate a place in which to keep his surplus funds; he chooses a co-worker. A problem arises. The answer is, 'Ask your banker.' This has become a well-known phrase because the banker realizes his responsibility to the community and is trying to fulfill it to the best of his ability.

"Savings banking has kept pace with the growth of civilization and will be found, in the future as it has been in the past, in the forefront of those economic agencies which make for the upbuilding of a community."

English Rediscount Rate Raised

The Bank of England on March 5 raised its rediscount rate from 4 to 5 per cent. An advance had been expected, following the action of the New York Federal Reserve Bank in raising its rate from 3 to 3½ per cent. The spread of 1½ per cent is expected to prevent the withdrawal of American balances which have been established in London.

The Banker Had Never Thought of That

TESTIFYING before a committee of Congress having charge of the Treasury Appropriation bill, Commissioner of Prohibition Haynes told a human interest story relative to a bank president who had contempt for the law of the land.

"You may be interested in a conversation I had with a gentleman in a pullman car some time ago," said Mr. Haynes. "I was in the smoker of a pullman, and there were two men there, splendid gentlemen, men of high station, evidently, and well-educated men. One of them made this statement as I went into the smoker. He said, 'I did not vote for this prohibition law; I never have been for it; I am not for it now. I never expect to obey it. It was foisted upon us. I do not care who knows it.'

"Well, I sat down, and in the course of time, after the discussion had been going on some time, I had an opportunity to enter into it. It developed that this gentleman was on his way West to take a two months' vacation. It also developed in conversation that he had a wife and two lovely daughters, one in high school and one in college. He had recently built a very beautiful home, costing about $100,000. He was an employer of a large number of men in a factory and was president of a bank.

"Finally the opportunity presented itself for me to say to him, 'Now, sir, I am interested in your conversation, and I was wondering about your going away on a two months' vacation. Are you not afraid to be gone from a big business of that kind two months?'

"'No,' he said, 'I live in a very normal community. What do you mean?'

"I said, 'I thought possibly some incendiary might apply a torch to your factory during your absence.'

"'No,' he said. 'We have good police protection, and there are high-grade law-abiding citizens living in our community, so there is no danger of that kind.'

"The conversation drifted on, and finally I said, 'I understand you are also president of a bank which has large deposits.' 'Yes,' he said, and he went on to say that the bank had deposits in the millions.

"'You say you are going away for two months?' 'Yes.' 'Are you not afraid to be gone for such a length of time?' 'No.' 'Well, I thought possibly you might be afraid that somebody might break into your bank and steal the money.'

"Then I went on and developed the idea along the line of the safety of his family and home during his absence, and finally he said, 'I want to know what you are driving at?' He did not know who I was.

"I said, 'When I came into the smoking compartment you were making the boast that you were not for the eighteenth amendment or for the Volstead Act, and not being for it, regardless of the action of the people and of the Congress, that you would not obey this law because you did not believe in it. Did it ever occur to you that the Constitution is the basic law of the land, that in it you have all the security you possess for the possession and safety of your property, your belongings, your family, and all the things you have? Now, here is this incendiary I mentioned; he perhaps has no regard for the law giving your property protection. He does not believe in your right to own property. Upon the same basis you suggest, he would have an equal right to apply the torch to your factory and destroy it or to enter your bank and steal your money, because he does not believe in the law protecting that property.'

"We had a very friendly conversation along that line, and the gentleman was good enough to change his attitude. He said he had never thought of the matter along that line, and it had never been presented to him in that light."

Coolidge Names Sinnock

President Coolidge has named John R. Sinnock, of Philadelphia, as engraver at the United States mint at Philadelphia to succeed the late George T. Morgan, who passed away early this year. The importance attached to this position by the government may be indicated by the fact that the Senate is required to confirm the nomination.

Mr. Morgan was the author of many designs appearing on our national and commemorative coins.

Bankers' Acceptances

(*Continued from page* 561)

THE Reserve Banks are seeking to encourage the creation of a broad acceptance market. They stand ready to purchase bankers' acceptances from the dealers under the condition that the acceptances will be repurchased from them within fifteen days. In other ways they are endeavoring to aid in developing a discount market where the holders of the acceptances may sell them without trouble at rates that do not fluctuate appreciably. The purchase and sale of bankers' acceptances by banks as a means of keeping their cash position adjusted is being urged by some, who contend that this is a better way of handling the secondary reserves than by the loan of temporarily surplus funds on the stock exchange in the form of call loans.

The high point of acceptance holdings is almost always reached during the latter part of the year, for it is at this time that the need for funds is most pressing in our foreign trade. The exports of our grain, cotton and other agricultural products attain their greatest volume during the fall months. There are more acceptances created than the market can absorb so the dealers and banks turn to the Reserve System's reservoir of credit. If it were not for this means of financing, the banks would have to obtain funds to meet these seasonal demands by rediscounting with the Federal Reserve Banks. Coming at a time when the demands of business and industry are strong, this need would lead to unnecessary borrowing if this means of meeting the seasonal shortage of funds did not exist. There is a delicate balance in the supply and demand of funds in the American money center, and if the adjustment could be made only by changes in the rates on money and the use of credits from the overseas money markets, there would be a wider seasonal fluctuation. But with the Reserve Banks standing ready to carry the acceptances created that the market cannot absorb, resort to changes in interest rates is not necessary. In the days antedating the establishment of the Reserve System, the periodic demand for more credit resulted in raising the interest rates; it now brings about an increased use of the Reserve Bank's credit.

The acceptance market, the annual report of the American Acceptance Council discloses, is approaching the billion dollar class. It was not numbered among our banking adjuncts ten years ago, but at the end of last year the principal American bankers had executed $821,000,000 in acceptances. Of these credits, nearly $600,000,000 had been arranged for the financing of import and export movements.

One interesting development now looked forward to is the coming of the day when acceptances will be offered in the American market on international trade movements that do not even touch the shores of the United States.

Its increasing importance will naturally direct more attention to the buying rates of our Federal Reserve Banks, which promise to play a large part in supporting the acceptance market.

Right Brigade

(*Continued from page* 567)

far as possible to give the prevailing practice among banks. Cities are arranged according to states in order that sectional practices, if any, may be observed.

Banks That Make Charges

THE following are merely statements of opinion by officers of banks picked at random and do not purport to represent unanimous opinion in the cities named.

"Worthless accounts closed and small balances showed an improvement."—Atlanta. "Do not believe we lost any business."—Chicago. "Had a valuable effect of closing unprofitable accounts. Effected saving in bookkeeping department." — Cleveland. "Great."—Knoxville. "Charge should be made by all banks."—La Crosse. "Results are satisfactory and pay well for clerical work of making charges."—Los Angeles. "Very desirable." — Minneapolis. "Very good."—New Orleans. "Working satisfactorily."—Ogden. "50 cents is not enough"—Oklahoma City. "Very successful." — Omaha. "Removes unprofitable accounts and raises balances on majority."—Philadelphia. "Charge desirable; loss of business small." Portland. "Fine."—Richmond. "Emphatically for it."—San Francisco. "Should be more than 50 cents."—St. Paul. "Every bank should adopt."—Salt Lake City. "Marked success."—Spokane. "Would not go back to old system."—Tacoma. "Good thing, but our charge is not enough."—Toledo. (*Concluded on page* 595)

City	Initial Deposit Required	Service Charge
ALABAMA		
Birmingham	No minimum,* to $50	None
Mobile	No minimum, to $25	None
Montgomery	$25	None
ARIZONA		
Phoenix	$100	50c under $50 if 2 or more checks and no checks.
CALIFORNIA		
Long Beach	$50 to $100	50c under $50
Los Angeles	$100 to $150	50c under $100
Oakland	None to $50	50c a month if falls below $50 and 3 or more checks drawn unless average is $200
Pasadena	None to $25	50c under $50
Sacramento	$50	50c under $50
San Bernardino	None to $50	50c under $50
San Diego	$50 to $100	50c to $1.00 under $100
San Francisco	$100	50c to $1.00 under $100
San Jose	$50	50c to $1.00 under $50
COLORADO		
Colorado Springs	$100	None
Denver	No minimum, to $100	50c under $100
CONNECTICUT		
Hartford	$100	50c under $100
Waterbury	None	50c under $50
DISTRICT OF COLUMBIA		
Washington	$100	None, to 50c under $100
FLORIDA		
Jacksonville	None to $50	None, to $1.00 depending on activity
Tampa	$50	None
GEORGIA		
Atlanta	None, to $100	50c under $100
Columbus	None, to $25	50c under $100
ILLINOIS		
Chicago	None	$1.00 under $300
Danville	$50	None
Moline	$50	50c under $50
Peoria	None, to $50	50c under $50
Rockford	$50	50c under $50
Rock Island	$50	Under $50
Springfield	None, to $50	None
INDIANA		
Evansville	None, to $50	Rarely
Gary	$50	None
Indianapolis	None, to $25	None
South Bend	$50	None
Terre Haute	$50	None
IOWA		
Davenport	None	50c under $100
Des Moines	None, to $50	50c under $100
Dubuque	$50 to $100	None
Sioux City	None	50c under $100
KANSAS		
Kansas City	None, to $50	None
Wichita	None, to $100	50c under $50
LOUISIANA		
New Orleans	None	50c under $100
MAINE		
Portland	None	By one bank only
MASSACHUSETTS		
Boston	None, to $500	$1.00 under $200
Holyoke	$50	50c under $50
Springfield	$100	Yes, if borrowing
Worcester	$100	50c under $100
MICHIGAN		
Bay City	None, to $25	None
Detroit	$100 to $200	None, to 50c under $100
Kalamazoo	$50	50c under $50
Lansing	$50	50c under $50
Saginaw	$25 to $50	None
MINNESOTA		
Minneapolis	None	$1.00 under $100
St. Paul	None	50c under $100 and $1.00 under $200
MISSOURI		
Kansas City	None, to $200	50c under $100
St. Joseph	$50	50c under $50
St. Louis	None, to $300	By one bank only
MONTANA		
Helena	Try to enforce $100	50c under $100
NEBRASKA		
Lincoln	$50	50c under $50
Omaha	None, to $100	50c under $100
NEVADA		
Reno	$100	50c under $50
NEW JERSEY		
Montclair	None	50c under $100
Newark	None, to $100	$1.00 under $100
Orange	None	50c under $100
NEW YORK		
Albany	$100	$1.00 under $100
Binghamton	None	50c under $100, but varies with number of checks
New York	$200	$1.00 under $200
Rochester	$100	Varies with balance and activity
Syracuse	None, to $50	$1.00 under $200 more than 4 checks
NORTH CAROLINA		
Charlotte	None, to $50, with exceptions.	None
NORTH DAKOTA		
Fargo	None	50c under $50
OHIO		
Akron	$100	None
Cleveland	$100	$1.00 under $100 unless $300 savings account
Columbus	$50	50c under $50
Mansfield	None, to $50	None
Springfield	None, to $25	None
Toledo	$50	50c under $50
OKLAHOMA		
Oklahoma City	$100	50c under $50
Tulsa	$100	None
OREGON		
Portland	None	50c under $100
PENNSYLVANIA		
Philadelphia	$200	None, to 50c under $200
SOUTH CAROLINA		
Greenville	None, to $50	None
SOUTH DAKOTA		
Sioux Falls	None	50c under $50
TENNESSEE		
Knoxville	None	50c under $100
Memphis	None, to $25	None
TEXAS		
Beaumont	None, to $50	None, to 50c under $50
Dallas	$50	None, to 50c under $50
El Paso	None	50c under $50
Galveston	None, to $25	None
Waco	None, to $25	No
UTAH		
Ogden	None	50c under $50 if 3 checks
Salt Lake City	$100	$1.00 under $100
VIRGINIA		
Richmond	None	50c under $50 if 5 checks
WASHINGTON		
Seattle	$100	50c under $100
Spokane	None	25c under $100
Tacoma	None, to $100	50c under $100
WISCONSIN		
Green Bay	$25	None
La Crosse	$100	50c under $100
Madison	None, to $100	Students' accounts only
Milwaukee	None, to $100	Rarely
WYOMING		
Casper	$50	None

**References such as "No minimum, to $50," "No, to under $50," and "None, to 50c under $50," imply that the reports from banks in the same city did not agree, indicating a varying practice. "No minimum to $50" means that the same banks require no minimum for opening accounts while others require $50.*

Banks Not Charging

"SHOULD be made but competition doesn't permit."—Austin, Tex. "Matter has been discussed but no definite action." —Dayton, Ohio. "Approve plan if generally enforced."—Denver. "Think charge should be made but have postponed action."—Duluth. "Don't believe there is much in it."—Birmingham. "Think it should be made."—Evansville, Ind. "No concerted action could be gotten and matter was dropped."—Fort Worth. "Something should be done to correct present system."—Harrisburg, Pa. "Inclined to favor it."—Houston. "Good, if it could be unanimous."—Indianapolis. "Clearing House is considering."—Little Rock. "Opposed to plan, believe effect bad."—Memphis. "Good, but our city too small to act without cooperation of the banks."—Mobile. "Favor it." — Montgomery, Ala. "Undoubtedly only solution; have been advocating."—Nashville. "Can't come to agreement."—Norfolk. "For it, believe it will have to come."—Springfield, Mo. "Positively in favor."—Trenton, N. J.

The McFadden Banking Bill

THOMAS B. PATON

General Counsel, American Bankers Association

THE McFadden bill (H. R. 8887), which passed the House on January 14 and was reported with amendments to the Senate by the Committee on Banking and Currency on February 6 and debated for several days in that body, has failed to pass the Senate because of the congestion of subjects of legislation in the closing days of the session.

The McFadden bill, as modified by the so-called Hull amendments relative to branch banking, was unanimously indorsed and its passage urged by the American Bankers Association at the last convention.

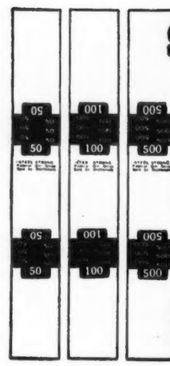
As passed by the House, the bill was in the form advocated by our Association. It sought to accomplish two important things—to grant necessary relief to national banks and to safeguard the independent system of banking by checking the further growth of branch banks. To epitomize its provisions, it provided for direct consolidation of a state with a national bank; gave greater leeway in the purchase of a building site; permitted smaller capital in outlying city districts; legalized the payment of stock dividends; legalized the position of Chairman of the Board of Directors; amended and clarified the law with regard to loan limits to borrowers; added certain agricultural credit liabilities to the total limit of indebtedness; amended the law punishing illegal certification of checks; permitted verification of reports by Assistant Cashier or Vice-President in the absence of President or Cashier; amended the law with regard to rediscounts; authorized safe deposit business; punished theft by an examiner of a member bank; liberalized the provisions for loans upon real estate security and authorized national banks to engage in the investment business.

The provisions relative to branch banking, granted to national banks the privilege of having branches in cities with certain limits as to population but only in those states where state banks are now permitted to have branches and only so long as such permission continues; as to all the other states national bank branches were prohibited even if a state hereafter permits branch banking. In the case of a state bank consolidated with a national bank it could not retain its outside city branches and could have no subsequent city branches in states not now permitting branch banking. Where state banks are converted into national banks, the present law allows the state bank to retain its branches. Under the bill as passed by the House, a newly converted bank must give up outside city branches and in all states not now permitting, but which might hereafter permit branch banking, a state bank hereafter converting into a national bank could not retain future branches.

With regard to state banks which may hereafter join the Federal Reserve System, the House bill required that they give up all their branches outside the city and in states which do not now permit branch banking, a state bank applying for membership must give up all subsequent branches, city or state-wide, should any such have been established by reason of future state permission.

Furthermore, state banks now members of the system, while permitted to retain all branches they have, could not hereafter establish branches outside of cities but could have city branches, limited as to population, in states now permitting branch banking, without the approval of the Federal Reserve Board. In other states members could not have even city branches, although the state should hereafter permit branch banking. The above is a summary of the bill as passed by the House.

As reported to the Senate by its Banking and Currency Committee, the branch bank provisions of the bill were changed in a number of particulars. All the restrictions as to branches of state bank members, present and prospective, were removed and the provisions as to branches of consolidated and converted state banks were liberalized. While a consolidated or converted state bank could not retain any branches in states not now permitting branch banking, yet branches established by such bank in a state which, at the time of approval of the act, by law, regulation, or usage with official sanction authorized branch banking and lawfully retained when the consolidation or conversion was effected could be continued by such consolidated or converted bank. This would allow outside city branches in such case. To the provisions of the House bill allowing city branches of national banks, limited as to population, in states which now allow branch banking, was added a proviso that no branch can be established in any part of a state to which the state law



relating to branch banking does not extend and a further provision empowering the Comptroller of the Currency to authorize branches in cities, boroughs, towns and villages contiguous to the municipality if they in fact constitute with it a single commercial community.

The real estate loan provision as passed by the House was also changed to permit a national bank to loan up to one-half instead of one-third of its savings deposits, the word "savings" being substituted for "time."

The bill not having passed the Senate, it is needless to speculate how these differences would have been reconciled between House and Senate had the bill gone to conference. The attitude of the American Bankers' Association has consistently been to support the bill as modified by the Hull amendments in accordance with the resolution adopted at the Chicago Convention. The bill as passed by the House was in accord with such resolution.

Dangerous Expansion Not Threatened

THE significance of the advance in the New York Federal Reserve Bank's rediscount rate from 3 to 3½ per cent may be easily exaggerated, the National City Bank of New York in its monthly letter, prepared by George E. Roberts, states.

Discussing this situation, the bank set forth that the rate had been advanced one-half per cent after standing since last August 8 at 3 per cent.

"The course of events for several months has been toward higher rates for credit and open market rates have been stiffening," it said. "The demand for money has been increasing, gold exports have been depleting the New York reserves, and now the season of the year has arrived when interior balances in New York usually are reduced.

"Rediscounts at the twelve Federal Reserve banks increased from $202,700,000 on January 21 to $433,800,000 on February 25, and of this $231,000,000 increase, approximately $190,000,000 was at the New York bank, and was mainly due to the depletion of member bank reserves by gold exports. In fact, rediscounts fell off slightly at all the Reserve banks west of Cleveland and Richmond.

"The Reserve Bank of New York has been the only one of the Reserve banks, and the only central bank in the world maintaining during the past year a discount rate of 3 per cent. The rate at the Boston, Cleveland, Richmond and San Francisco Reserve banks has been 3½ per cent and at the other Reserve banks 4 per cent. In view of the fact that the brunt of gold exports has fallen upon the New York bank and that the Reserve banks have been reducing their security holdings in this market, not to speak of the signs of more active business, it was quite in order to bring the New York rate up to at least 3½. Under the circumstances it is easy to exaggerate the significance of this advance, and the tendency to do so shows an undue inclination to discount the future. The change reflects recovery from the stagnant conditions of last summer, but 3½ per cent is still the lowest rate in the world for money and its adoption ought not to be interpreted as a warning that a state of dangerous expansion is threatened. There should be an opportunity to enjoy normal conditions without alarm."

Savings Assets

(*Continued from page* 560)

expense, and the ratio of the profits to the income. It is the first to protect against the shortcomings or inefficiency of management, or of any other business trouble. The bond house that does not do this, or that on the contrary, seeks to "scalp" its own securities and break down the market on issues it has placed, is not a friend of the savings bank, and when dicovered, should be placed on the prohibited list.